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

2016 annual report

*For identification purpose only

Company Dream

Endowing with clear water,
blue sky,
and vivid green land.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Deng Jun Jie *(Chairman)*
(Appointed on 21 April 2017)
Mr. Wang De Yin *(Chairman and Chief Executive Officer)*
(Resigned on 21 April 2017)
Mr. Lin Yue Hui *(Chief Executive Officer,*
appointed on 21 April 2017)

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana
Ms. Deng Xiao Ting

Independent Non-Executive Directors

Mr. Guo Chao Tian
Mr. Wong Siu Keung, Joe
Ms. Qiu Na (Appointed on 21 September 2016)
Mr. Li Jian Jun (Resigned on 21 September 2016)

AUDIT COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
Mr. Guo Chao Tian
Ms. Qiu Na (Appointed on 21 September 2016)
Mr. Li Jian Jun (Resigned on 21 September 2016)

REMUNERATION COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
Mr. Liu Feng
Mr. Guo Chao Tian(Appointed on 21 September 2016)
Mr. Li Jian Jun (Resigned on 21 September 2016)

NOMINATION COMMITTEE

Mr. Deng Jun Jie *(Chairman)* (Appointed on 21 April 2017)
Mr. Wang De Yin *(Chairman)* (Resigned on 21 April 2017)
Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian (Appointed on 21 September 2016)
Mr. Li Jian Jun (Resigned on 21 September 2016)

INVESTMENT COMMITTEE

Mr. Lin Yue Hui *(Chairman)* (Appointed on 21 April 2017)
Mr. Wang De Yin *(Chairman)* (Resigned on 21 April 2017)
Mr. Liu Feng
Mr. Liu Hui Quan
Mr. Huang De Ping
Ms. Zeng Yuan Chun
Mr. Liu Wei Qing (Appointed on 19 December 2016)
Mr. Li Jian Ping (Resigned on 19 December 2016)

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 ADVISER 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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1207, 12th Floor
West Tower, Shun Tak Centre
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Sheung Wan, Hong Kong

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STOCK

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FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2016	2015	Change
	HK$'000	*HK$'000*	%
Financial Results			
Revenue	**550,646**	528,586	4.17%
Gross profit	**223,982**	185,020	21.06%
Profit/(Loss) for the year	**84,902**	(70,598)	220.26%
Profit/(Loss) attributable to owners of the Company	**31,263**	(97,497)	132.07%
Earnings/(loss) per share (HK cents)			
– Basic and diluted	**1.96**	(6.56)	129.88%

	2016	2015	Change
	HK$'000	*HK$'000*	%
Financial Position			
Total assets	**2,752,832**	2,621,663	5.00%
Total liabilities	**1,114,625**	969,104	15.02%
Current assets	**1,205,620**	1,231,659	(2.11%)
Current liabilities	**860,393**	713,794	20.54%
Current ratio	**1.40 times**	1.73 times	(19.08%)
Cash and cash equivalents	**459,179**	476,873	(3.71%)
Gearing ratio	**40.49%**	36.97%	9.52%
Total net asset value	**1,638,207**	1,652,559	(0.87%)
Equity attributable to the Company's shareholders	**1,263,852**	1,310,827	(3.58%)
Equity attributable to the Company's shareholders per share (HK$)	**0.79**	0.82	(3.66%)

FIVE YEARS FINANCIAL SUMMARY

	2012 *HK$'000* (restated)	2013 *HK$'000* (restated)	2014 *HK$'000* (restated)	2015 *HK$'000* (restated)	**2016** ***HK$'000***
Results					
Revenue	327,885	510,959	507,963	528,586	**550,646**
Finance costs	(31,744)	(15,352)	(21,670)	(8,842)	**(24,083)**
Profit (loss) before taxation	81,920	152,657	291,410	(50,658)	**124,817**
Income tax expense	(35,998)	(46,697)	(61,775)	(19,940)	**(39,915)**
Profit (loss) for the year	45,922	105,960	229,635	(70,598)	**84,902**
Assets and liabilities					
Non-current assets	816,605	1,068,871	993,766	1,390,004	**1,547,212**
Current assets	405,875	401,639	939,438	1,231,659	**1,205,620**
Total assets	1,222,480	1,470,510	1,933,204	2,621,663	**2,752,832**
Non-current liabilities	178,180	211,178	177,762	255,310	**254,232**
Current liabilities	359,453	432,831	485,448	713,794	**860,393**
Total liabilities	537,633	644,009	663,210	969,104	**1,114,625**
Net assets	684,847	826,501	1,269,994	1,652,559	**1,638,207**
Equity attributable to owners of the Company	464,943	543,674	939,577	1,310,827	**1,263,852**
Non-controlling interests	219,904	282,827	330,417	341,732	**374,355**
Earnings (loss) per share					
Basic	3.96 cents	5.53 cents	16.50 cents	(6.56) cents	**1.96 cents**
Diluted	3.96 cents	5.53 cents	14.11 cents	(6.56) cents	**1.96 cents**

CHAIRMAN'S STATEMENT

2016 was a year for the Group to carry out steady operation and intensify management. As this year marked the beginning of China's "13th Five-year Plan", national favourable policies were presenting business opportunities to the environmental protection industry. We were proactively coping with the new situation and new challenges in the industry by strengthening corporate management as well as carrying out reform and innovation programmes on an ongoing basis, and then looking for new development and creating a new and good prospect.

MARKET REVIEW

In 2016, the environmental protection industry, a major strategic emerging industry under the "13th Five-year Plan", remained to be the trend of development which received strong policy support. This industry played a more major role in the supply-side reform programme particularly under the environment where the economy was facing pressure from transformation and there was an urgent need to renovate the ecological environment. The reform of the urban water supply industry was gradually deepening with the increasing deregulation of the water service market. In the relevant "Guiding Opinions on the Market-oriented Reform of Urban Public Utilities" published in 2002 and the "Measures Governing the Franchising of Municipal Public Utilities" published in 2004 by the Ministry of Construction respectively, the criteria for commissioning the franchising of municipal public facilities were specified so that substantial progress was made in the reform of the urban water supply industry. At present, some Chinese domestic water supply companies are reforming and exploring the property ownership regime in various ways, resulting in various patterns of reform being carried out in the urban water supply industry. In the mean time, China's urban water supply industry has successfully gone through the construction period into a maturity stage primarily dominated by the service industry. As China is introducing various water-saving initiatives, water consumption per unit of GDP and water consumption per capita will be gradually reducing. However, given the increasing population, deepening urbanization and growing industrial production, there continues to be stable growth in the overall demand in the urban water supply industry.

As to the new energy segment, China has been placing increasing emphasis on environmental protection in recent years to encourage the use of new technologies and new energy to reduce the greenhouse effect, promote a virtuous ecological cycle and keep reducing the use of fossil fuels. Against this backdrop, biogas power generation is one of the typical new energy sources. Compared with other gases, biogas has a better blast-resistant performance and is a clean fuel with a high fuel value. Biogas power generation will help reduce greenhouse gas emissions, which is conducive to mitigating the greenhouse effect and reducing a large amount of organic waste. It is a typical resource recycling project. For these reasons, it has good economic and environmental benefits. Moreover, the development of biogas power generation both reduces environmental pollution and creates a new way for energy use in remote rural areas to generate an income stream for general farmers. According to the analysis in the "Report on the Market Demand in and Investment Advice on China's Biogas Power Generation Industry for 2016 – 2021", more than 50 million rural households will become biogas users in 2015, and the annual utilization of biogas is expected to reach 44 billion cubic meters in China by 2020. This suggests that biogas power generation holds enormous growth potential and a broad market prospect.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

1. The water supply segment continued to operate well and attained steady growth in profits.

   Generally speaking, the profit contribution from the Group's urban piped water supply and sewage treatment companies remained essential for the Group's profitability, and the profits of these companies increased steadily. While improving the water quality processing technology and delivering quality services, the Group grew in a flexible way, carried out management in an orderly manner and operated smoothly. Among these companies, Yingtan Water Supply Co., Ltd. performed excellently, with the profit ranking first within the Group. It scored a "Class A Taxpayer" credit rating in Yingtan City, and officially changed its name to Yingtan Water Supply Group Co., Ltd. Yichun Water Industry Co., Ltd. expanded the water service market aggressively. Its project revenue increased substantially, with the profit ranking second. It is currently working hard to coordinate with the government system to make preparations for the implementation of the tiered-pricing policy, with expectations to perform better in this aspect. Other water service companies were operating more mature and continued to generate profits, which laid a sound foundation for the further development of the Group.

2. The new energy segment looked for innovation while making steady progress, with profit growing but lower than expected.

   The rate of profit growth in the new energy segment was lower than expected due to the substantial fall in natural gas prices, but we remained optimistic about the growth potential of the solid waste segment in future. We have been looking for our own development path with the spirit of overcoming difficulties and exploring a new horizon, and continuing with our investment in quality projects. During the year, in addition to the existing 17 projects, we successfully entered into a sale and purchase agreement and a cooperation agreement for the acquisition of four landfill gas power generation projects in Yichun, Shandong, Ningbo and Xinhua, with a total installed capacity of 92.24 megawatts, suggesting that our size of investment was growing.

   To grow the new energy segment faster and better, we devoted more efforts to intensifying reform and regulating management, optimized strategic planning and improved management rules and regulations for building a solid growth foundation.

   We achieved the development advantages by combining regional operations and management with business management backed by the delicacy management of projects.

   i. We reinforced and improved the target management system of the management team, staff performance and remuneration management system, production performance management system and production safety management system; offered incentives; exercised stringent control over costs; and kept increasing efficiency in the management.

   ii. We stepped up the building of a technical team and formed an internal expert groups to lay a solid foundation for the growing business. We formed a team of experts to conduct professional training in project construction, operation and maintenance of biogas power generating plants and

CHAIRMAN'S STATEMENT

biogas collection technology, with an aim to enhance day-to-day operation rules and safety responsibility management for technical staff at all levels.

iii. Having built up experience and improved learning for years during the process of project investment, we further improved the project investment process and assessed projects in a scientific way so as to make decisions safely.

3. The corporate structure and asset restructuring in the new energy segment were further improved to enhance advantages in operations and management

After the new energy segment was separated from New China Water (Nanjing) Renewable Resources Investment Co., Ltd., Shenzhen City New China Water Environmental Technology Limited acted as an operations centre in the new energy segment for strengthening the integration of favourable resources as well as the optimization of the operation and management of the Group to further increase the financing capacity of this company to combine the industry with funds so that the overall operation efficiency and operating efficiency of this company could be raised systematically to provide an incentive for the key team, which enabled the Group to grow steadily, quickly and healthily.

4. The glass recycling business operated smoothly with an enormous space to expand.

After we worked hard for more than a year, the Hong Kong Glass Project was operating smoothly with some progress made in the field of solid waste disposal in Hong Kong. At present, we have factory buildings with area of more than 4,000 square metres. The project is the first qualified glass collection and processing centre under the Hong Kong Environmental Protection Department's project, and the "Happy Glass Garden", an environmental education base, acting as an excellent platform for the people of Hong Kong as well as primary and secondary school students to learn and promote environmental protection. At the beginning of the project, we worked with the Nano and Advanced Materials Institute ("NAMI") in Hong Kong to develop anti-bacterial nano glass tiles for use in grounds and walls at homes and shopping centres. We had received two utility model patents in China, which attracted much attention and applause from the industry. We also expanded the glass fragment export business, making us the first company in Hong Kong to have successfully exported separating glass fragments.

5. The corporate culture was stepped up by building a corporate culture featuring the characteristics of China Water Industry Group

An advanced corporate culture is the common value both the Group and the Company are pursuing. It is a spiritual impetus that pushes the Group and the Company to grow better and faster. It forms an integral part of the core competitiveness of the Group and the Company. In our in-house magazine "The Sound of Water", we provide an update on the senior staff of the Company, announce company policies, promote corporate culture, tell the top stories about individual employees and publish selected good poetries, prose, informal essays and other articles composed by staff. The magazine acts as a platform for the staff to expand their strengths and showcase their talent, and for providing training and education. At the annual seminar on "The Sound of Water", we maintain a unified internal culture across project companies, the Group and the Company, enhance the cohesion and centripetal force of the Group and the

CHAIRMAN'S STATEMENT

Company, and build an image of the Group and the Company as a whole. Moreover, grassroots companies are encouraged to cultivate and create a unique culture combined with their own situations to bring the corporate culture in line with the sound and rapid development of the Company in a harmonious way, and to provide the Group and the Company with a strong cultural support.

6. Focused on corporate propaganda for comprehensively enhancing the corporate public image.

   We enthusiastically participated in the environmental exhibitions and forums in Hong Kong and Macau, where we were interviewed and covered by a number of well-known media. We also received a number of professional awards and honours, such as the title of "EcoChallenger" under the BOCHK Corporate Environmental Leadership Awards, both in recognition of our efforts we have made and as an ongoing encouragement to us to make another achievement in environmental protection.

PROSPECTS AND PLANS

2017 will be a year of diversified development for the Group because the Group has the new energy and the real estate development segments in addition to the urban water supply and sewage treatment segments. The abundant internal resources and capital platform will provide a stronger impetus for the rapid development of the Group.

I. Open up the conventional water service segment aggressively and continue to develop quality water projects

   The urban water supply business has been the Group's principal business over the years. With this business, water quality control is kept stable and the safety of urban water supply is effectively assured. Our commitment is to provide quality services for urban residents.Water treatment will reach a pinnacle during the period of the "13th Five-year Plan". With accelerating urbanization process and increasing year-by-year urban water consumption in China, there will be an enormous market demand for water supply and sewage treatment in China, giving the water industry an increasingly prominent position. Sales revenue from the water production and supply sectors is estimated at more than RMB300 billion by 2021. Moreover, the "Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment" (Guofa.2010. No. 13) specified that "the private sector shall be encouraged to invest more capital in the reorganization and restructuring of municipal public enterprises. Qualified municipal utilities projects may be operated with a market-oriented business approach by transferring the property rights or the operating rights to the private sector", "to further deepen the system reform

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of municipal public utilities; to bring in a market competition mechanism aggressively; and to promote a tender system vigorously for investing in and operating municipal public utilities; and to establish a sound franchise system for municipal public utilities". For these reasons, the key to the further development of the water service sector is the availability of specialized and socialized capital resources. Between 2002 and 2009, the average annual growth rate of the prices of tap water for residential purposes in 36 Chinese key cities was 4.69%, and the average annual growth rate of sewage treatment fees was 11.9%. The experience of some overseas successful urban water suppliers suggests that the household water fees should be well-matched with electricity bills, and that the price-demand curve of residents' water consumption should strike a balance if water expenses account for about 4% of personal income. However, there is a wide gap between the current water and electricity expenses in Chinese urban households (electricity expenses are several times higher than water expenses), and water expenses account for only 1.2% of personal income. In the "Study on the Water Shortage Problem in Urban and Rural Areas", the Ministry of Construction pointed out that in order to encourage residents to conserve water, it was appropriate to set the water-cost-to-income ratio at 2.5% -3%. Hence, there is a larger space for water rates to rise. Whether in terms of the scarcity of water resources in China, or the demand from water service companies to make a reasonable profit so as to improve the quality of services, or the comparison with international water tariff standards, there is still a larger space for the current water rates to rise in China. For us, this is big, good news to grow the water service segment. We will expand the water service segment aggressively, keep improving the management mechanism, seek progress while maintaining stability and continue to acquire quality water projects.

On 17 February 2017, Mingyue Mountain Fangke successfully entered into a sewage treatment plant BOT cooperation agreement with Mingyueshan Spa Management Committee for the joint contribution of capital to the construction of a sewage treatment plant project in Wentang by stages. The project will have a planned capacity of 40,000 tons/day and cover an area of 60 acres. The project construction will ensure that quality water resources in Wentang will not be contaminated, will further increase the utilization of water resources to enhance the image of Mingyueshan as a tourist spot, and generate a stable investment return in future.

II. As the development of new energy segment enters the fifth year, a pattern of the development of the sector has been seen with a promising future.

The environmental problem in China is similar to that in Western industrial developed countries in the 1970s. The extensive economic growth model characterized by high levels of emission, energy consumption and pollution has created a tremendous pressure on the resources and the environment. To transform this model into a resource-saving and environment-friendly economic growth model has become the only way for China to maintain its rapid economic growth in the future. For this reason, the Chinese government is stepping up financial commitment to the environmental protection industry. Following the promulgation of the Air Pollution Prevention and Control Action Plan, Water Pollution Prevention and Control Action Plan as well as Soil Pollution Prevention and Control Action Plan, financial commitment to environmental protection is expected to rise to around RMB2 trillion annually during the period of the "13th Five-year Plan". As the impact of solid waste on the environment is emerging progressively, the solid waste treatment industry

CHAIRMAN'S STATEMENT

in China will enter a rapid growth period following the sewage and waste gas treatment industries, with an average annual growth rate expected to exceed 30% to usher in a golden period. We, as a domestic environmental company in China, will also have an enormous space for development in the future. By leveraging the academician workstation set up as a technical support in the Company by the Group together with Chinese Academy of Engineering's academician Zhang Qisheng and Chinese Academy of Sciences' academician Chen Yong, we have studied, developed and acquired various cutting-edge technologies such as primary household garbage separation technology, mineralized refuse separation technology, pyrolysis gasification power generation technology using primary garbage and mineralized refuse, and landfill gas technology using agricultural and forestry residues and urban wood junk in pyrolysis gasification power cogeneration for the treatment of low-grade waste combined with coal. In the planning and construction of various pilot projects such as "the landfill gas project using agricultural and forestry residues in pyrolysis gasification power cogeneration for the treatment of low-grade waste combined with coal in Chenzhou, Hunan", "the landfill gas project using agricultural and forestry residues in pyrolysis gasification power cogeneration for the treatment of urban wood junk combined with coal in Jiaozishan, Nanjing" and "the separation and pyrolysis gasification power generation project using primary household garbage and mineralized refuse in Hexian, Anhui", we will vigorously push for the development of the new energy segment in the next three years with our determined development model and concept. Upon completion of the existing biogas power generation and biogas purification projects, we will develop biomass power generation projects, pyrolysis gasification power generation projects and power generation projects using urban solid waste (garden, agricultural, forestry and furniture wood residues, etc.) from dumpsites to reduce the amount of waste truly for reducing carbon emissions and increasing annual revenue. It is initially expected that our total installed capacity will exceed 200 megawatts in the next three years. After 2018, our total estimated net operating profit will exceed RMB500 million; and our annual forecast net profit will exceed RMB200 million. In the next decade, the demonstration effect of these projects will expand a huge market space for us in the field of household garbage disposal, agricultural and forestry residue disposal and pyrolysis gasification.

III. Invest in a flexible way and expand more real estate development projects

In 2016, the Group successfully acquired the land-use rights to two sites in Nanjing and Huizhou, China, at preferential prices, and planned to use the sites for an R&D centre, office buildings and property development which includes property sales and/or lease. The pre-planning and design has been carried out on schedule. Having seen the favourable trend in real estate development in Nanjing and Huizhou, we expect property development to generate positive and stable income stream for the Group.

IV. Place emphasis on two overseas business projects to build a new growth engine

a. The Hong Kong Glass Bottle Project is one of the key projects of concern to the Group. The development and impact of this project on the environmental protection industry in Hong Kong should not be underestimated.

CHAIRMAN'S STATEMENT

b. We will aggressively expand the urban solid waste business in Southeast Asian countries and seize the strategic opportunities arising from China's "One Belt, One Road" initiative. The garbage problem is getting serious in Southeast Asian countries with the rapidly growing economy and population in these countries. More than 50% of garbage are stacked at open areas, most of which are disposed without any treatment. As the international community is working hard to promote sustainability and the "3R" concept, developing countries in Southeast Asia have begun to realize the importance of resource recycling, but their solid waste industries are mostly in their infancies or initial stages. They have an urgent need to work together with key enterprises run by conglomerates with relevant management experience and technical equipment on project development. This has offered us a good business opportunity.

c. After the idea of "building a beautiful China" was proposed at the 18th Third Plenary Session, the importance of the environmental protection industry has become increasingly prominent. As the Chinese government is introducing more preferential policies for the urban water supply, sewage, solid waste and new energy sectors, a favourable situation has almost been created, where the Chinese government is stepping up supervision as well as improving policies and regulations, while investment and business development are growing. We will seize this rare opportunity firmly to further enhance and expand our own experiences and advantages in the area of operations management and expertise, strive to grasp and create more business opportunities by making use of the Group's diversified development strategy, and enhance efficiency in the management. The Group's revenue and profit for 2017 are anticipated to have a remarkable growth as compared with 2016.

V. To ensure the sustainable development of the Group and fulfil the capital demands during the development, the Group took the initiative to expand its financing channels, enhanced its funding capability and entered into financing agreements with various domestic and international commercial banks to make well preparation for the future development of our projects. The Group managed to maintain a healthy financial condition with a reasonable gearing ratio.

Lastly, I would like to take this opportunity to express my heartfelt gratitude, on behalf of the Board of Directors, to general investors for offering their tremendous support to the Group over the past one year, as well as to the management and all the staff for working hard and striving for success for the Group. We will remain committed to maintaining the Group's long-term growth and stable performance, and look forward to sharing the Group's achievements with you in the next challenging year.

Wang De Yin
Chairman and Chief Executive Officer
Hong Kong, 29 March 2017

* *for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW AND BUSINESS REVIEW

Financial Review

The Group recorded a consolidated net profit of HK$84.90 million for the year ended 31 December 2016 (the "**FY2016**"), as compared to the consolidated net loss of HK$70.60 million for the year ended 31 December 2015 (the "**FY2015**"). The Board considers that the aforesaid turnaround from loss to profit was principally attributable to: (i) a gross profit growth contributed from renewable energy business and construction service business for water supply; (ii) the recent upturn in the financial market, resulting in a net gain on financial assets at fair value through profit or loss; (iii) a realized gain on disposal of investment fund and listed equity securities; and (iv) increase in other operating income mainly arising from a net gain generated from managed project and interest income.

Revenue and gross profit

For the FY2016, total revenue was HK$550.65 million, an increase of HK$22.06 million, or 4.17% from HK$528.59 million for the FY2015. The increase was primarily attributable to the continued business expansion of the Group with the new projects related to biogas power generation business commenced their operation in 2016.

For the FY2016, total gross profit was HK$223.98 million, an increase of HK$38.96 million from HK$185.02 million for the FY2015. The gross profit margin for the FY2016 was 40.68%, an increase of 5.68% from 35% for the FY2015. The increase in the gross profit margin was a result of an increase in revenue of 4.17% as compared to the decrease in cost of sales of 4.92%, reflecting: (i) better cost control management in construction projects to bring a higher profit margin and (ii) economies of scale due to the continued expanding business operation.

During the year under review, the main revenue and gross profit contributors were Yichun Water Industry Co., Ltd ("**Yichun Water**") and its subsidiaries ("**Yichun Water Group**") and Yingtan Water Supply Group Co., Ltd ("**Yingtan Water**") (formerly know as Yingtan Water Supply Co., Ltd) and its subsidiaries ("**Yingtan Water Group**"), which collectively accounted for 61.30% of the total revenue and 62.40% of the total gross profit.

The summary of total revenue and total gross profit is as follows:

	Revenue				**Gross Profit (G.P)**			
	2016	**%**	2015	%	**2016**	**G.P**	2015	G.P
	HK$'M	***to total***	*HK$'M*	*to total*	***HK$'M***	**%**	*HK$'M*	%
Water supply business	**112.04**	**20.35**	119.06	22.52	**37.60**	**33.56**	49.02	41.17
Sewage treatment business	**44.42**	**8.07**	48.38	9.15	**16.83**	**37.89**	19.75	40.82
Construction services business	**272.98**	**49.57**	294.57	55.73	**135.21**	**49.53**	101.05	34.30
Biogas power generation business	**121.21**	**22.01**	66.58	12.60	**34.34**	**28.33**	15.20	22.83
Total	**550.65**	**100**	528.59	100	**223.98**	**40.68**	185.02	35.00

MANAGEMENT DISCUSSION AND ANALYSIS

Other operating income and expenses

Other operating income mainly consisted of interest income, a gain on the operation services provided pursuant to the Changsha Operation Contract, income from leasing equipment, rental income, VAT refund and government compensation. For the FY2016, other operating income was HK$76.57 million, an increase of HK$24.30 million from HK$52.27 million for the FY2015. This increase was primarily attributable to: (i) an increase in gain generated from the Changsha Operation Contract due to premium awarded for surplus production over guarantee annual capacity; (ii) compensation paid by the respective local government for property demolition in Yingtan City, PRC; (iii) an increase in loans interest income; and (iv) rental income received from leasing power generation equipment.

Net gain/(loss) on financial assets at fair value through profit or loss

Included in net gain on financial assets at fair value through profit or loss ("**FA**") comprised (i) HK$51.72 million for the fair value gain on investment fund ("**Fund A**"); (ii) HK$13.01 million for the fair value loss on listed equity securities; (iii) HK$27.38 million for the realized loss on the redemption of investment fund ("**Fund B**") due to the redemption amount less than the net carrying value of Fund B; and (iv) HK$10.97 million for the gain on disposal of listed equity securities. For FY2016, net gain on FA recorded HK$22.30 million, an increase of HK$112.93 million from the loss of HK$90.63 million for FY2015. The increase in net gain on FA was mostly due to fair value gain on the net asset value ("**NAV**") of the Fund A. In 2016, the Company invested HK$82.40 million into Fund A which primarily invests in listed securities in Hong Kong. The fair value of this unlisted financial asset is based on the NAV of the fund calculated on the last day of each calendar month and reported by the fund manager accordingly. The change in fair value on this financial asset of HK$51.72 million was solely on the gain of the NAV of the Fund A. The fair value of the fund and securities trading are determined based on the quoted market bid prices available on the Stock Exchange.

Net gain on disposal of available-for-sale investments

Included in gain on disposal of available-for-sale investments (the "**AFS**") of HK$35.70 million (FY2015: HK$12.72 million) was the realised gain on disposal of fund and listed equity securities of HK$33.99 million and HK$1.71 million, respectively. The increase in net gain on disposal of AFS by HK$22.98 million was mainly because the Company sold all benefit and right of unlisted US$ based investment fund (the "**Fund C**") to an independent third party at a consideration of HK$69 million and recognized a gain on disposal.

Impairment loss recognized on AFS

Included in impairment loss recognized on AFS of HK$9.70 million (FY2015: HK$58.54 million) was the loss arising from the change in fair value of listed securities resulting from a significant and prolonged decline in their fair values at the end of reporting period below their costs. The decrease of impairing loss of HK$48.84 million was mainly due to the disposal of Fund C and listed equity securities.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses and administrative expenses

For the FY2016, selling and distribution costs together with administrative expenses ("**Total Expenses**") collectively increased by HK$28.50 million to HK$199.74 million (FY2015: HK$171.24 million). The rise was primarily attributable to the acquisition and establishment of new companies in the PRC which caused the increment of staff costs and associated operating expenses. These expenses mainly consisted of staff costs, insurance, rent and rates, legal and professional fee and depreciation. The ratio of Total Expenses for the FY2016 represented 36.27% of revenue, an increase of 3.87% from 32.40% for the FY2015. The increase was as a result of a greater increase in Total Expenses of 16.64% as compared to the increase in revenue of 4.17%.

Finance costs

Finance costs are mainly the bonds interests. For the FY2016, the finance costs were HK$24.08 million, an increase of HK$15.24 million from HK$8.84 million for the FY2015. The issuance of HK$300 million bonds during the year resulted in an increase of interest expenses (FY2015: HK$200 million bonds in issue).

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("**Jinan Hongquan**"), 30% equity interest in Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**") and 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited ("**Yu Jiang Hui Min**"). For the FY2016, the Group shared the loss of HK$1.41 million (FY2015: profit of HK$7.33 million) which was mainly from the loss of HK$2.20 million from Jinan Hongquan, the gain of HK$1.03 million from Super Sino Group and the loss of HK$0.24 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. For the FY2016, certain subsidiaries such as Foshan City Gaoming Huaxin Sewage Treatment Company Ltd ("**Gaoming Huaxin**"), Nanjing Feng Shang New Technology Limited Liability Company ("**Nanjing Feng Shang**"), Hunan Huiming Environmental Technology Limited ("**Huiming Technology**"), Changsha Huiming Recycling Resources Technology Limited ("**Changsha Huiming**"), Wuzhou City China Water New Renewable Resources Company Limited ("**Wuzhou New China Water**"), Qingyuan City Greenspring Environmental Technology Limited ("**Qingyuan City Greenspring**") and Shenzhen City New China Water Environmental Technology Limited ("**Shenzhen New China Water**") (formerly known as Shenzhen City Greenspring Recycling Resources Technology Limited) are entitled to have 50% to 100% exemption of income tax. 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. For the FY2016, income tax expense increased by HK$19.98 million to HK$39.92 million (FY2015: HK$19.94 million). Such increase was primarily due to the profits generated from construction projects for water supply and an absence of the reversal deferred tax which recorded in 2015. As of 31 December 2016, the Group had fulfilled all its tax obligations and did not have any tax disputes.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to Owners of the Company

For the FY2016, profit attributable to owners of the Company was approximately HK$31.26 million (FY2015: loss of HK$97.50 million), a substantial increase of HK$128.76 million primarily due to a net fair value gain on investment of FA and a realized gain on disposal of investment fund and equity securities.

Exposure to Fluctuations in Exchange Rates

Almost all of the Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in Renminbi ("**RMB**") but the books are recorded in Hong Kong dollars ("**HKD**"). The management of the Group noted that the recent fluctuation in the exchange rate between RMB and HKD, and is of the opinion that it does not currently have a material adverse impact of the Group's financial position. During the year, depreciation in RMB against HKD resulted in a net exchange loss of HK$3.60 million (FY2015: exchange gain of HK$1.53 million). The Group currently does not have a foreign currency hedging policy. The management will continue to monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the FY 2016, the Group financed its operations with internally generated cash flows, banking facilities and other borrowings. The Group recorded cash and bank balance including cash held at financial institutions of HK$459.18 million (FY2015: HK$476.87 million) including an overdraft held at financial institutions of HK$31.06 million (FY2015: Nil). The decrease in cash and bank balance of the Group was mainly due to the payments for the acquisition of subsidiaries, development of properties and the acquisition of land use rights. With the steady operating cash flows, the Group should 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 HKD and RMB.

The net current assets for the Group in 2016 were HK$345.23 million (FY2015: HK$517.87 million). The current ratio (current assets over current liabilities) is 1.40 times as at FY2016 (FY2015: 1.73 times).

Net asset value was HK$1,638.21 million (FY2015: HK$1,652.56 million). Net asset value per share was HK$1.03 (FY2015: HK$1.04).

As at FY2016, the Group's consolidated non-current assets increased by HK$157.21 million to HK$1,547.21 million (FY2015: HK$1,390.00 million) mainly due to several subsidiaries related to biogas generation business being acquired and the acquisition of land use rights in Nanjing City and Huizhou City, PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT PROPERTIES

Xiabu Water Plant Control Centre ("**Xiabu Centre**") has divided into two-block of buildings located at No. 1 Qilin East Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC which was wholly-owned by Yingtan Water. These properties are held on long-term lease expiring in February 2061. The usage of these buildings are for the purpose of office premise by own use and commercial leasing. The total gross floor area is approximately 25,170 square meters. The commercial lettable floor area for leasing is 11,191 square meters and all commercial rentable rooms were leased out during the year under review. The tenancy varied according to the terms agreed with tenants. As at FY2016, the carrying value of the Xiabu Centre after revaluation for leasing portion was HK$32.51 million (FY2015: Nil). For FY2016, the gross rental income from investment properties less direct outgoing recorded HK$1.34 million (FY2015: HK$1.26 million.)

OTHER NON-CURRENT ASSETS

During 2015, Yingtan Water 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 received compensation including transfer of certain construction floor areas of the New Premises (the "**Yingtan New Premises**"). As at FY2016, the construction of New Premises are still under construction and is expected to be completed in August 2017. The carrying value of the Yingtan New Premises was HK$19.37 million (FY2015: HK$20.71 million).

INVENTORIES

As at FY2016, inventories of HK$184.59 million (FY2015: HK$204.38 million) mainly comprised of properties held for sale of HK$151.64 million. Properties held for sale represented the construction of new commercial and residential buildings by Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("**Xiang Rui Property**") at Yingtan City, Jiangxi Province, the PRC which is beneficially owned as to 51% by Yingtan Water. The properties namely Yu Jing No.1* (御景壹號) located at No. 8 Xinjiang North Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC which was completed in 2016. There were 394 residential units and 54 commercial units with total saleable gross floor area of approximately 27,312 square meters launched for sale. As at FY2016, 137 residential units and 4 commercial units have been sold. During the year, Xiang Rui Property commenced to deliver the sold units to the buyers and recognized the results for the year 2016. For FY 2016, the income and gross loss recognised from the sale of properties were HK$25.22 million and HK$0.24 million respectively.

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at FY2016, the FA recorded at fair value of HK$232.81 million (FY2015: HK$220.06 million). The portfolio investment contained Fund A and equity securities listed in Hong Kong.

As at FY2016, the AFS recorded at fair value of HK$90.44 million (FY2015: HK$181.42 million). The portfolio investment contained only equity securities listed in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group held a diversified portfolio of securities trading and investments including fund investment and the total market value of the portfolio investments was HK$323.25 million, representing 11.74% of the total assets value of the Group as at FY2016. The following analysis was the Group's top five investments at the end of reporting period:

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held	Effective shareholding interest held	Initial Investment cost	Market value as at 31 December 2016	Realised gain for the year ended 31 December 2016	Accumulated unrealised holding gain/(loss) on revaluation	Percentage to total assets value of the Group as at 31 December 2016	Classification	Dividend received/ receivable during the year
				(%)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*			*HK$*
Tiger Capital Fund SPC	Unlisted	In vestment in Hong Kong listed equity securities which is managed by A Plus Capital Management Limited	80,000	–	82,400	134,123	–	51,723	4.87%	FA	–
Leyou Technologies Holdings Limited	1089	Trading and manufacturing of chicken meat products, animal feeds and chicken breeds.	25,300,000	0.882%	28,839	40,480	10,656	11,641	1.47%	FA	–
Mega Expo Holdings Limited	1360	Organisation of trade shows and exhibitions, providing ancillary services and sub-contracting and management services for exhibitions and trade shows.	25,265,000	1.870%	20,147	21,981	695	1,834	0.80%	AFS	–
China Best Group Holding Limited	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities and trading of fuel oil, electronic devices and other commodities.	117,000,000	1.611%	20,244	21,645	–	1,401	0.79%	AFS	–
HK Life Sciences and Technologies Group Limited	8085	Anti-aging and stem cell technology businesses; trading business; money lending business; and securities investment.	135,824,000	2.865%	21,584	18,880	415	(2,704)	0.69%	AFS	–

The above top five investments in aggregate of HK$237.11 million represented 73.35% in value of the Group's investment portfolio.

As investment in securities accounted for significant portion of the Group's total assets, management will closely monitor the investment portfolio in a prudent manner and balance investment risks. The overall result of investment in securities for FY2016 was in a profit position, the Company believes that following the implementation of the favourable financial policies in Hong Kong, such as the Shanghai-Hong Kong Stock Connect, mutual recognition of funds and the Shenzhen-Hong Kong Stock Connect, the Company is optimistic about the future equity securities markets in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

LIABILITIES AND GEARING

Total liabilities of the Group as at FY2016 were HK$1,114.63 million, an increase of HK$145.53 million from HK$969.10 million for FY2015. The increase was mainly attributable to addition loans borrowing to finance the expansion of biogas power generation business and investment in equity securities. Total liabilities mainly comprised of the bank and other borrowings of HK$483.19 million (FY2015: HK$416.47 million), trade and other payables of HK$256.26 million (FY2015: HK$306.04 million) and deferred tax liabilities of HK$65.17 million (2015: HK$54.58 million). Except for the following 2016 Fixed-rate New Other Loan denominated in HKD, borrowings were mainly denominated in RMB.

On 14 June 2016, the Company, Guarantor 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 and Series B Bond (the "**2016 Fixed-rate New Other Loan**"). Series A Bond of HK$200 million and Series B Bond of HK$100 million was issued on 14 June 2016 and on 7 December 2016 respectively. This 2016 Fixed-rate New Other Loan will mature in one year from the date of issuance. As at FY2016, this 2016 Fixed-rate New Other Loan amounted to HK$285.27 million and were classified as short-term loans. The repayment of the 2016 Fixed-rate New Other Loan is guaranteed by a substantial shareholder of the Company.

As at FY2016, the Group's total bank and other borrowings were HK$483.19 million (FY2015: HK$416.47 million). For the maturity profile, refer to the table below:

MANAGEMENT DISCUSSION AND ANALYSIS

Debt Analysis

	31 December 2016		31 December 2015	
	HK$'000	**%**	*HK$'000*	%
Classified by maturity				
– repayable within one year				
Bank borrowings	**48,729**	**10.08**	29,007	6.97
Other loans	**295,265**	**61.11**	203,982	48.97
	343,994	**71.19**	232,989	55.94
Classified by maturity				
– repayable more than one year				
Bank borrowings	**74,245**	**15.37**	103,852	24.94
Other loans	**64,947**	**13.44**	79,627	19.12
	139,192	**28.81**	183,479	44.06
Total bank and other borrowings	**483,186**	**100**	416,468	100
Classified by type of loans				
Secured	**118,509**	**24.53**	123,309	29.61
Unsecured	**364,677**	**75.47**	293,159	70.39
	483,186	**100**	416,468	100
Classified by type of interest				
Fixed rate	**408,141**	**84.47**	259,196	62.24
Variable-rate	**17,863**	**3.70**	87,141	20.92
Interest free rate	**57,182**	**11.83**	70,131	16.84
	483,186	**100**	416,468	100

The Group's gearing ratio as at FY2016 was 40.49% (FY2015: 36.97%). The ratio was calculated by dividing total liabilities of HK$1,114.63 million over total assets of the Group of HK$2,752.83 million.

MANAGEMENT DISCUSSION AND ANALYSIS

TRADE AND OTHER RECEIVABLES

As at FY2016, the Group's trade and other receivables were approximately HK$286.24 million (FY2015: HK$305.61 million). These comprised of: (i) trade receivables of HK$61.51 million, (ii) other receivables of HK$95.33 million, (iii) loan receivable of HK$3.55 million and (iv) deposits and prepayments of HK$125.85 million.

Trade receivables increased by HK$25.83 million to HK$61.51 million due to certain renewable energy projects commencing operation in 2016 (FY2015: HK$35.68 million). The average turnover period of the trade receivables as at FY2016 were 34 days (FY2015: 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$22.60 million to HK$95.33 million (FY2015: HK$72.73 million) which mainly included the remaining amount of consideration of HK$40.90 million for the disposal of Fund C. Subsequent to the year-end, HK$20.90 million of partial consideration received for Fund C pursuant to the supplemental agreement.

Loans receivables decreased by HK$53.75 million to HK$3.55 million (FY2015: HK$57.30 million) due to unrelated parties settled their loans during the year. Loan receivables of HK$3.55 million (FY2015: HK$57.30 million) represented an unsecured loan to one (FY2015: two) unrelated party which bear fixed annual interest rate of approximately 36%.

Deposits and prepayments recorded HK$125.85 million which mainly represented payment-in-advance of HK$15 million for the subscription of Fund A and deposits paid in total of HK$50.24 million for the tender of sewage treatment infrastructure construction project and for the acquisition of sewage treatment plant. The decrease by HK$14.05 million from HK$139.90 million as at FY2015 was mainly the material procurement deposit of HK$47.75 million being refunded in 2016. Subsequent to the year-end, the deposits were fully refunded and the subscription of Fund A was completed.

TRADE AND OTHER PAYABLES

As at FY2016, the Group's trade and other payables were approximately HK$256.26 million (FY2015: HK$306.04 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

The Company has not conducted any equity fund raising activities during the year.

During the year, the Group incurred capital expenditures amounting to HK$24.66 million (FY2015: HK$59.60 million) for acquisition of concession intangible assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2016 marks the beginning 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. In response to the challenges that the Chinese government has promulgated a series policy together with the increase of governmental funds in green development, focuses on promoting ecological civilization and environmentally friendly manufacturing methods. This is further proof of the Chinese government giving priority to environmental issues and also indicates the direction of the future development of China's environmental industry. To capture these potential opportunities and adhere to the Group's corporate vision "**Making the World Endowed with Clean Water, Blue Sky and Vivid Green Land**", the Group has actively been exploring in the areas of environmental friendly renewable energy business through acquisition and continue to invest more funds 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 (FY2015: 5 water supply projects). The daily aggregate water supply capacity was approximately 1.94 million tonne (including the capacity of 1.60 million tonne of two associated companies) (FY2015: 1.91 million tonne). The revenue and gross profit from water supply business amounted to HK$112.04 million and HK$37.60 million respectively, representing 20.35% and 16.79% of the Group's total revenue of HK$550.65 million and total gross profit of HK$223.98 million respectively. The overall gross profit ratio was 33.56% (FY2015: 41.17%). The decrease in gross profit ratio was due to the drop of water supply volume which offset the benefit from the increase in water tariff. The rates for the water supply ranged from HK$1.34 to HK$2.57 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	190,000	Jiangxi	2034
2	Yingtan Water	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		1,940,000		

MANAGEMENT DISCUSSION AND ANALYSIS

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (2015: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 170,000 tonne (FY2015: 150,000 tonne) generating a revenue of HK$44.42 million and gross profit of HK$16.83 million, representing 8.07% and 7.51% of the Group's total revenue of HK$550.65 million and total gross profit of HK$223.98 million respectively. The gross profit ratio was 37.89% (FY2015: 40.82%). The decrease in gross profit ratio was due to VAT tax paid in 2016 whereas VAT tax was exempted in 2015. The rates for sewage treatment ranged from HK$0.63 to HK$1.24 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	120,000	Jiangxi	2035
	Total		170,000		

MANAGEMENT DISCUSSION AND ANALYSIS

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's major sources of revenue and gross profit contributing HK$272.98 million and HK$135.21 million respectively, representing 49.57% and 60.37% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 49.53% (FY2015: 34.30%). The increase in gross profit ratio was due to stringent cost control policy adopted and successfully bid more contract works with higher contracts price.

Exploitation and sale of renewable energy business

Up to the date of this report, the Group has successfully secured 20 biogas power generation projects which are located in various provincial cities across China including Jiangsu, Hunan, Shaanxi, Anhui, Hainan, Jiangxi, Sichuan, Zhejiang, Chongqing, and Guangdong. Comparing with the FY2015, the revenue and gross profit increased by HK$54.63 million and HK$19.14 million respectively. This was because 15 projects have operation in 2016 (2015: 3 projects). The overall gross profit ratio was 28.33% (FY2015: 22.83%). the average electricity rate was HK$0.67 per kilowatt-hour and the average CNG rate was HK$1.84 per m^3.

	Revenue				**Gross Profit (G.P)**			
	2016		2015		**2016**		2015	
	HK$'M	***% to total***	*HK$'M*	*% to total*	***HK$'M***	***G.P %***	*HK$'M*	*G.P %*
Biogas power generation business								
– Sale of electricity	**70.70**	**58.33**	29.98	45.03	**24.90**	**35.22**	7.99	26.65
– Sale of compressed natural gas	**39.42**	**32.52**	27.53	41.35	**5.81**	**14.74**	2.47	8.97
– Service income from collection of landfill gas	**11.09**	**9.15**	9.07	13.62	**3.63**	**32.73**	4.74	52.26
Total	**121.21**	**100**	66.58	100	**34.34**	**28.33**	15.20	22.83

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of renewable energy projects on hand is as follows:

	Project name	Provincial cities in PRC	Business mode	Equity interest held by Company (%)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
1	Nanjing Jiaozishan	Jiangsu	Power generation	100	October 2013	June 2025
2	ZhuZhou Biogas	Hunan	Power generation	100	November 2014	October 2023
3	Shenzhen Pingshan	Guangdong	Power generation	100	January 2016	September 2024
4	Baoji	Shaanxi	Power generation	100	May 2016	April 2028
5	Chenzhou Environmental	Hunan	Power generation	100	March 2016	February 2029
6	Huayin Heng Yang	Hunan	Power generation	100	March 2016	October 2029
7	Chongqing Camda	Chongqing	Power generation	100	May 2016	May 2028
8	Hainan Camda	Hainan	Power generation	100	May 2016	*Note 1*
9	Wuzhou Landfill	Guangxi	Power generation	100	September 2016	September 2022
10	Changsha Operation Contract*	Hunan	Power generation	–	May 2014	October 2039
11	Changsha Heimifeng Landfill Site*	Hunan	CNG	94.6	December 2015	
12	Shenzhen Xiaping Landfill Site	Guangdong	CNG	88	July 2015	April 2030
13	Liuyang Biogas	Hunan	CNG	100	July 2016	October 2038
14	Qingshan Landfill Site	Guangdong	CNG/Power generation	100	CNG: May 2016 Power generation: October 2016	July 2024
15	He County	Anhui	CNG	100	June 2017	February 2036
16	Yichun South Suburban	Jiangxi	Power generation	100	June 2017	September 2026
17	Ningbo Qiyao	Zhejiang	Power generation	100	February 2017	June 2028
18	Datang Huayin	Hunan	Power generation	100	February 2017	March 2024
19	Chengdu City	Sichun	Power generation	49	March 2017	December 2027
20	Xinhua	Hunan	Power generation	100	August 2017	December 2026

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

Note 1: The collection period of landfill gas is until the volume of landfill gas generated from Haikou City Yan Chunling Landfill reduced to the level of which could not be further utilized.

MANAGEMENT DISCUSSION AND ANALYSIS

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

(I) Ningbo Qiyao Project

On 15 December 2016, New China Water (Nanjing) Renewable Resources Investment Company Limited* ("**New China Water (Nanjing)**"), an indirect wholly-owned subsidiary of the Company, entered into acquisition agreement with China Shipbuilding Industry Corporation (Shanghai) New Energy Company Limited* ("**China Shipbuilding**") (中船重工（上海）新能源有限公司) to purchase the entire equity interest of Ningbo Qiyao New Energy Company Limited* ("**Ningbo Qiyao Project**") (寧波齊耀新能源有限公司), at a consideration of approximately RMB5.9 million (equivalent to approximately HK$6.6 million). Ningbo Qiyao Project principally engages in the operation of landfill gas power generation plant in the Ningbo Yinzhou landfill, located in Zhejiang Province. Up to the date of this report, the acquisition was completed in February 2017.

(II) Shandong Qiyao Project

On 30 December 2016, New China Water (Nanjing) entered into the Acquisition Agreement with China Shipbuilding to purchase the entire equity interest of Shangdong Qiyao New Energy Company Limited* (山東齊耀新能源有限公司) ("**Shandong Qiyao Project**"), at a consideration of approximately RMB1.64 million (equivalent to approximately HK$1.84 million). Shandong Qiyao Project principally engages in the operation of landfill gas power generation plant in the Shandong Laiwu landfill, located in Shandong Province. Up to the date of this report, the acquisition has not yet to complete.

(III) Yichun South Suburban Landfill Project

On 23 September 2016, Yichung Environmental Hygiene Management Office* (宜春市環境衛生管理處) ("**Hygiene Management Office**") and New China Water (Nanjing) entered into a 10-year agreement on the neutralized collection and power generation of landfill gas, setting out details on the collection and utilization of landfill gas produced at Yichun South Suburban Solid Waste Landfill ("**South Suburban Landfill Project**"). The Hygiene Management Office shall allow New China Water (Nanjing) to neutralize and collect all the landfill gas generated at South Suburban Landfill to eliminate environmental pollutions and safety hazards caused by landfill gas. New China Water (Nanjing), in return, can comprehensively utilize the collected landfill gas resource and obtain profits thereof. The South Suburban Landfill Project Company was established in November 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Xinhua County Project

On 23 December 2016, Xinhua County Bureau of City Administration and Law Enforcement* (新化縣城市管理行政執法局) ("**Xinhua City Administration**") and Shenzhen New China Water entered into a cooperation agreement on Xinhua County Dazhichong Solid Waste Landfill Biogas Power Generation Project ("**Xinhua County Project**") with an operating period of ten years. Xinhua City Administration shall provide the production site and waste resources for the integrated utilization of landfill gas. Shenzhen New China Water shall establish a project company at Xinhua County, Loudi City, Hunan Province to be responsible for the construction and operation of the project. Upon the commencement of operation of the project, Shenzhen New China Water shall pay 3% of the project's annual power generation revenue to Xinhua City Administration in exchange for using the resources. Up to the date of this report, the Xinhua County Project Company has established in December 2016.

ACQUISITION AND/OR ESTABLISHMENT OF RENEWABLE ENERGY PROJECTS AFTER THE YEAR UNDER REVIEW

(A) Datang Huayin Project

On 23 January 2017, Shenzhen New China Water, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreements with Datang Huayin Electric Power Co., Ltd* (大唐華銀電力股份有限公司) and Xiangtan Feihong Industry Company* (湘潭飛宏實業公司) (collectively known as "**Vendors**"), to purchase the entire equity interests of the Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* (大唐華銀湘潭環保發電有限責任公司) ("**Datang Huayin Project**") at an aggregated consideration of approximately RMB0.97 million (equivalent to approximately HK$1.08 million) and the assuming of liabilities and expenses in aggregate of approximately RMB4.6 million (equivalent to approximately HK$5.11 million), respectively. Datang Huayin Project is principally engages in the harmless treatment of city solid waste in Xiangtan Yuetang landfill. Up to the date of this report, the transaction has been completed in February 2017.

(B) Fengcheng Landfill Project

On 17 March 2017, Fengcheng Environmental Hygiene Department* (豐城市環衛處) and Shenzhen New China Water have entered into an agreement on the neutralized collection and power generation of landfill gas. The agreement has a term of 15 years. Fengcheng Environmental Hygiene Department will allow Shenzhen New China Water to neutralize and collect all the landfill gas produced at Fengcheng Municipal Solid Waste Landfill ("**Fengcheng Landfill Project**"). In return, Shenzhen New China Water shall be responsible for the collection and utilization of Fengcheng landfill gas, the construction and production, the integrated utilization of collected landfill gas resources and the obtainment of profits. Up to the date of this report, the Fengcheng Landfill Project Company has not yet to establish.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER EVENTS DURING THE YEAR UNDER REVIEW

- **Acquisition of land use right in Nanjing City, PRC**

  Through public tender, New China Water (Nanjing) and New China Water (Nanjing) Carbon Company Limited* (新中水（南京）碳能有限公司) (collectively known as "**Nanjing Assignees**"), both are indirect wholly-owned subsidiaries of the Company, had successfully bid a tender for the acquisition of land in Nanjing City on 14 April 2016. On 22 April 2016, Nanjing Assignees entered into Stated-owned Construction Land Use Right Transfer Agreement (the "**Land Agreement**") with Nanjing City Stated-owned Land Resources Bureau* (南京市國土資源局) ("**Nanjing Assignor**") for a consideration of RMB42.99 million (equivalent to HK$50.20 million) and paid HK$25.10 million being 50% of land cost as a deposit on 20 April 2016. The remaining balance of land cost shall be paid by 14 July 2016. The Nanjing Land is located in Nanjing City Xuanwu District Xiaolingwei Road Kirin Nanjing Science and Technology Innovation Park* (南京市玄武區孝陵衛街道麒麟科創園) 2-2(A) and 2-2(B) ("**Nanjing Land**") with an area of 26,340.79 m^2. Pursuant to the Land Agreement, the land use right period is 50 years. The completion of properties construction is expected in July 2020. The Nanjing Land is planned to use as research and development center, office buildings and property development. The acquisition of this land use right was completed in July 2016.

- **Acquisition of land use right in Huizhou City, PRC**

  Through the public tender, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) (the "**Huizhou Assignee**"), an indirect wholly-owned subsidiary of the Company, had successfully bid the tender for the acquisition of land in Huizhou City on 14 June 2016. On 30 June 2016, Huizhou Assignee entered into Huizhou City Stated-owned Construction Land Use Right Transaction Confirmation (the "**Land Confirmation**") with Huizhou City Stated-owned Land Resources Bureau* (惠州市國土資源局) ("**Huizhou Assignor**") for a consideration of RMB25.90 million (equivalent to HK$30.24 million) ("**Consideration**") and fully paid the Consideration. The Huizhou Land is located in Huizhou City Huicheng District Sandong Town, Huinan Road* (惠州市惠城區三棟鎮惠南大道) with net area of 30,544.2 m^2. Pursuant to the Land Confirmation, the land use right period is 50 years. The Huizhou Land is planned to use for research and development center, office buildings and property development. Up to the date of this report, the acquisition of this land use right was completed in September 2016.

- **Adjustment to water tariff**

  The Yingtan Municipal Commission of Development and Reform, Jiangxi Province, the People's Republic of China approved the increase in water tariffs according to the newly adopted multi-step water price system in Yingtan City. The existing water tariff of RMB1.25 to RMB6.00 will be increased to RMB1.40 to RMB7.00 with effect from 1 July 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER EVENT AFTER THE YEAR UNDER REVIEW

1. Mingyue Mountain Project

On 17 February 2017, Yichun Mingyue Mountain Spa Scenic Zone Management Committee* 宜春市明月山溫泉風景名勝區管理委會 ("**Mingyue Mountain Spa Management Committee**") and Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd.* 宜春市明月山方科污水處理有限公司 ("**Mingyue Mountain Fangke**") have entered into a BOT concession contract for the build, operate and transfer of Yichun Mingyue Mountain Wentang Sewage Treatment Plant ("**Mingyue Mountain Project**") with a term of 26 years. Located in Wentang Town, Yuanzhou District, Yichun, Jiangxi Province, the project is estimated to cost approximately RMB36 million, and has a designed capacity of 20,000 tonnes per day in the short term and 30,000-40,000 tonnes per day in the long term. In September 2016, Mingyue Mountain Fangke was established for the purpose of Mingyue Mountain Project with registered capital of no less than RMB12 million. This project company is held as to 65% by Yichun Fangke Sewage Treatment Company and as to 35% by Jiangxi Mingyue Mountain Travel Group Company Limited* (江西明月山旅遊集團有限公司).

LITIGATIONS

(a) 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) ("**Sihui Sewage**") 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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. Up to the date of this report, the liquidators are in the course of raising funds to proceed with their proposed plan against 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**"). 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. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. Subsequent to the year-end, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. As at 31 December 2015 and 2016, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("**Guangzhou Hyde**") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("**Yunnan Chaoyue Gas**") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("**Deposit**") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("**Project**"). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011. The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("**Commission**") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the 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 this report, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan and the civil enforcement is still executed by Kunming Court without significant progress.

The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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:

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Foreign exchange rates risk	The Group's assets, borrowings and major transactions are mainly denominated in RMB. The Group mainly settles business expenses and receives operating income in mainland China in RMB. It has not used any financial instruments to hedge against bank borrowings in RMB, 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 HKD. The exposure to foreign exchange risk is minimal and will continue to closely monitor the exposure and take any actions when appropriate.	– Management actively monitor the fluctuation in exchange rate and the Group's exposure to foreign exchange rate risk – Perform sensitivity analysis to quantify the foreign exchange rate risk – Management review regularly what necessary action (such as hedging) should be taken	Unchanged
Equity price risk	The Group is exposed to equity price risk through its investments in listed equity securities and investments in funds. Unfavorable movement in equity price could bring book or actual investment loss to the Group.	– The Board actively review and monitors the investment portfolio and take necessary action to limit the potential loss in an acceptable level – Establish investment policies that clearly set out control limits and approval procedures – Obtain Board approval for investment decisions	Unchanged
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.	– Actively 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.	Unchanged

1. Key risk mitigations represent measures taken by the management to reduce the risks to acceptable level.

2. Changes represent changes in significancy of the identified risks compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Risk	Description	Key Risk Mitigations[1]	Changes[2]
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.	Unchanged
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.	Unchanged
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.	– Provide attractive remuneration package to suitable candidates and personnel – Create positive and work-life balance working environment to avoid staff dissatisfaction – Regularly review staff benefit package and compare to market – Establish clear career path, Backup staff plan and rotate staff regularly, if possible, to reduce impact from staff departure	Unchanged

MANAGEMENT DISCUSSION AND ANALYSIS

Risk	Description	Key Risk Mitigations[1]	Changes[2]
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.	– Actively monitors and pays close attention to the relevant regulatory and legislative developments of the markets it operates. – Consults with regulators of the markets on changes which could impact on our businesses. – Training provided to staff in new staff orientation training. – On-going training to staff to alert them latest regulatory requirements.	Decrease

CAPITAL COMMITMENTS

As at FY2016, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment and concession intangible assets approximately HK$29.68 million (FY2015: HK$110.55 million) and no properties under development in relation to development costs of existing projects have been provided (FY2015: HK$9.27 million).

CONTINGENT LIABILITIES

During the year, the Company issued guarantees to banks in respect of bank borrowings made by two subsidiaries which expire on 24 May 2018 and 26 September 2019. As at FY2016, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowings of the subsidiaries of HK$29.03 million (FY2015: HK$47.75 million).

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$149.27 million in total as at 31 December 2016 (FY2015: HK$123.31 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$33.20 million (FY2015: HK$ nil); and

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

MANAGEMENT DISCUSSION AND ANALYSIS

NO MATERIAL CHANGE

Save as disclosed in this report, during the year ended 31 December 2016, 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 2015.

EMPLOYEES

As at 31 December 2016, excluding jointly controlled entities and associates, the Group had 1,093 (2015: 1,128) employees, of which 13 (2015: 10) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$153.03 million (2015: HK$116.32 million). The increase was caused by several of our renewable energy projects have commenced their operations in 2016. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Deng Jun Jie ("Mr. Deng"), aged 47, was appointed as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company in April 2017. Mr. Deng currently is the chairman of the board of directors of Honghu Capital Co. Ltd. ("**Honghu Capital**") and a chairman of a number of companies in China. He possesses over 25 years of experiences in industrial sector, involving real estates, environmental protection, culture, aviation and other fields. He specializes in the formulation and development of corporate strategic planning, corporate management and daily operations. Furthermore, with over 15 years of experiences in financial investment and capital operation, Mr. Deng is well versed with the financial markets and capital markets domestically and overseas, in addition to relevant laws and regulations. He has a keen insight and judgment on markets and comparatively strong risk control capability that enable him to seize investment and profit opportunities by taking the lead in several mergers, acquisitions and restructuring projects in the PRC and abroad. Ms. Deng Xiao Ting, is an executive Director of the Company, she is the sister of Mr. Deng. As at date of this report, Honghu Capital owned 437,788,000 shares, representing approximately 27.42% of the issued share capital of the Company. Honghu Capital is wholly and beneficially owned by Mr. Deng. Also, Honghu Capital held 645,100,000 shares, representing approximately 13.48% of the issued share capital of the Co-Prosperity Holdings Limited (stock code: 707) which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

***Mr. Wang De Yin ("Mr. Wang")**, aged 54, was appointed as an executive Director of the Company and the Chairman in August 2011. He was also appointed as a Chief Executive Officer ("**CEO**") of the Company in July 2012. He was a Chairman of both of the Nomination Committee and the Investment Committee and also the director of certain subsidiaries of the Group. 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. Wang resigned as an executive Director, Chairman, CEO and a Chairman of the both of the Nomination Committee and the Investment Committee of the Company and other directorship in subsidiaries of the Group with effect from 21 April 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Yue Hui ("Mr. Lin"), aged 46, was appointed as an executive Director of the Company in August 2011. He is also the director of certain subsidiaries of the Group. On 21 April 2017, Mr. Lin was appointed as a CEO and a Chairman of Investment Committee of the Company. 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 55, was appointed as an executive Director of the Company in August 2011. He is a member of each of the Remuneration Committee and the Investment Committee. He is also the director of various subsidiaries of the Group. 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 46, 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 43, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 71, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo is a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. 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 has been 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. Wong Siu Keung, Joe ("Mr. Wong"), aged 52, was appointed as an independent non-executive Director of the Company in October 2012. Mr. Wong is a Chairman of both of the Audit Committee and Remuneration Committee and a member of the Nomination Committee. Mr. Wong is currently an independent non-executive Director of Interactive Entertainment China Cultural Technology Investments Limited (stock code: 8081) and Worldgate Global Logistics Ltd (stock code: 8292), both companies are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. 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.

Ms. Qiu Na ("Ms. Qiu"), aged 39, was appointed as an independent non-executive Director of the Company in September 2016. Ms. Qiu is a member of the Audit Committee. Graduated from the Information Institute of Defense Studies, NDU, PLA* (中國人民解放軍國防信息學院) in 2012, majoring in accountancy. Ms. Qiu is currently a general manager of Huizhou City Huixinfu Property Company Limited. She has extensive experience in human resources management, accounting, corporate administration and property development.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT OF THE GROUP

Mr. Liu Hui Quan ("Mr. Liu"), aged 54, was appointed as a Deputy General Manager of the Company in January 2012. He is a member of Investment Committee. 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 43, was appointed as the financial controller of the Company in January 2014. 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. Ms. Zhang has over 10 years of extensive experience in the financial accounting field.

Mr. Xu Huan Xiong ("Mr. Xu"), aged 55, 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 46, was appointed as the Chief Internal Auditor of the Company in July 2015. He is a member of Investment Committee. 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.

CORPORATE GOVERNANCE REPORT

OVERVIEW

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

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

For the year ended 31 December 2016, 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 and A.4.1.

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 32 Board meetings in the year of 2016. 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.

CORPORATE GOVERNANCE REPORT

- 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 2016 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)*	32	N/A	N/A	1	12	1
Mr. Lin Yue Hui	32	N/A	N/A	N/A	12	1
Mr. Liu Feng	31	2	N/A	N/A	12	–
Ms. Deng Xiao Ting	31	N/A	N/A	N/A	N/A	1
Ms. Chu Yin Yin, Georgiana	24	N/A	N/A	N/A	N/A	1
Independent Non-Executive Directors:						
Mr. Guo Chao Tian	26	N/A	2	N/A	N/A	1
Mr. Li Jian Jun	20	1	2	–	N/A	1
Mr. Wong Siu Keung, Joe	29	2	2	1	N/A	1
Ms. Qiu Na	4	N/A	N/A	N/A	N/A	N/A

N/A: not applicable

A.2. Chairman and Chief Executive Officer

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

CORPORATE GOVERNANCE REPORT

- 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 focus on his role for the Group's overall strategy planning, analysis of market trend and establishment of the Group's future development direction. Also, he 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 2016 and the Company's business plan to be developed in 2017. 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.

CORPORATE GOVERNANCE REPORT

A.3 Board Composition

- The composition of the Board is shown on page 35 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 INED of their independence to the Group. The Group considered all of INEDs meet 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 35 to 38 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.

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- 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 comprised an executive Director, namely Mr. Wang (Committee Chairman), two INEDs, namely Mr. Wong Siu Keung, Joe and Mr. Guo Chao Tian. 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;

CORPORATE GOVERNANCE REPORT

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 2016. 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	54	Male	Information technology, corporate management and business restructuring	Chinese	Bachelor's degree	August 2011
Lin Yue Hui	ED	46	Male	PRC law profession and investment	Chinese	Doctoral degree	August 2011
Liu Feng	ED	55	Male	Banking, financing and property operation	Chinese	Master's degree	August 2011
Deng Xiao Ting	ED	43	Female	Accounting and investment	Chinese	Bachelor's degree	July 2012
Chu Yin Yin, Georgiana	ED & Company Secretary	46	Female	Accounting, auditing and financing	Chinese	Master's degree	October 2006
Guo Chao Tian	INED	71	Male	Economic analysis and investment	Chinese	Master's degree	June 2012
Wong Siu Keung, Joe	INED	52	Male	Accounting, auditing and financing	Chinese	Masters' degree	October 2012
Qiu Na	INED	39	Female	Accountancy	Chinese	Bachelor's degree	September 2016

ED: executive Director

INED: Independent non-executive Director

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- 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 1 meeting 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 2016, the Company has arranged a training to all Directors which was provided by the accredited service provider.

  During the year ended 31 December 2016, 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		
M. Qiu Na		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.

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- Mr. Wong Siu Keung, Joe and Mr. Guo Chao Tian, 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.

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. Guo Chao Tian 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$)	2016 Number of individuals	2015 Number of individuals
Nil to 500,000	**1**	2
500,001 to 1,000,000	**3**	2

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 2 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 2016. 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.

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- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 97 to 102 of this annual report.

- A separate statement in the Annual Report on pages 12 to 34 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 is responsible to maintain a sound and effective risk management and internal control systems, in order to protect the interest of the Company and its shareholders. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Our Group has established an Enterprise Risk Management (the "**ERM**") framework in order to implement effective risk management. Our ERM framework comprises two key elements: risk management structure and risk management process.

Risk Management Structure

Board of Directors

As a body in charge of the Group's risk management and internal control systems, the Board is responsible for the setting up of clear ERM framework and risk management policies, the propose of which is to assess and evaluate the Group's business strategies and its degree of risk tolerance. The Board review, with assistance from the Audit Committee, at least annually the effectiveness of the risk management and internal control systems and monitor the systems in an on-going manner.

Audit Committee

Audit Committee has the highest responsibility to risk management and internal control after the Board. It assists the Board in overseeing the Group's risk management and internal control systems by providing support and advice, including on-going monitoring of the execution of risk management processes, reviewing the Group's risk register, reviewing and approving the internal control review plan and results.

Management

The Management is responsible for identifying and monitoring the risks relevant to the Group during daily operations. Including strategic, operational, financial, reporting and compliance risks, the Management report to the Board and Audit Committee on the risks identified and its changes. The management is also responsible to develop appropriate internal control measures to mitigate the risk, identify and resolve material internal control defects.

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Internal Audit Function

The Group has put in place an internal audit function. Annual review on the effectiveness of the risk management procedures of the Group will be conducted by the management and the Audit Committee, and professional internal control advisers may be consulted if necessary. The plan of internal control review will be submitted to the Audit Committee for review and approval. The internal audit team will also report the review results directly to the Audit Committee.

Risk Management Process

Our ERM framework defined the procedures for identifying, assessing, responding and monitoring risks and their changes. Through regular discussion with each operating functions, the Group strengthen the understanding of risk management such that all employees can understand and report various risks they identified in a timely manner. It enhanced the Group's ability to identify and management risk.

To identify and prioritize material risks throughout the Group, Management communicate with each operating functions, collect significant risk factors that affect the Group from bottom to top, including strategic, operational, financial, reporting and compliance risks. After identified all relevant risks, Management assess the potential impact and possibilities of the risks and prioritize the risks, appropriate internal control measures is then developed to mitigate the risks identified and the changes of risks are monitored in an on-going manner.

Main features of our risk management and internal control systems

Maintain an effective internal control system (operational level)

- Establish clear internal control policies and procedures, clearly define the responsibilities, authorities and accountabilities of each key positions;
- Establish code of conduct, explain the Group's requirements on integrity and ethical value to all staffs;
- Establish whistle blowing mechanism, encourage employees to report incidents of misconduct or fraud;
- Establish appropriate level of information technology assess rights, avoid leakage of price sensitive information;
- Establish insider information disclosure policy, including reporting channel and responsible person of disclosure, unified response to external enquiries and obtain advice from professional financial adviser or the Stock Exchange if necessary.

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During 2016, the Board has reviewed the effectiveness of internal control policies and procedures, including those related to financial reporting and Listing Rule compliance. The Board has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions during the evaluation the effectiveness of the review the effectiveness of risk management and internal control systems.

On-going risk monitoring (risk management level)

Based on the ERM framework and risk management policies established by the Board, the Management communicate with each operating functions, collect significant risk factors that affect the Group from bottom to top. The Group has established a risk register to record the risks identified, the Management assess the potential impact and possibilities of the risks and develop appropriate internal control measures to mitigate the risks identified. Key risks and uncertainties of the Group are listed in the Management discussion and analysis on p.31-p.33.

During 2016, the Management conducted evaluation of risk management structure and procedures and submitted a risk assessment report to the Board and Audit Committee, including a 3-years internal control review plan, to enable the Board and Audit Committee effectively monitor the major risks of the Group and understand how the Management response and mitigates the risks.

Independent review

The internal audit function of the Group is independent to the operational functions under review. The scope of review is prepared according to the risk assessment result and have been approved by the Audit Committee. The internal audit team has performed an independent review on the risk management and internal control systems of the Group, covered the period from 1 January 2016 to 31 December 2016, so as to assess its effectiveness. A report of the internal control review was submitted to the Audit Committee and the Management has established remediation and improvement plan for internal control weaknesses 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.

Nothing has come to the Audit Committee's or the Board's attention to believe that the risk management and internal control systems are inadequate and ineffective.

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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), Ms. Qiu Na 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 2 meetings included the review of the final results for the year ended 31 December 2016 and interim accounts for 30 June 2016. The Group's annual report for the year ended 31 December 2016 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.

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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.

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- 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 2016, 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. Liu Wei Qing (Director of subsidiary) and Ms. Zeng Yuan Chun (General Manager of Investment Department). 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$2,187,000, of which HK$1,922,000 related to audit services and HK$265,000 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.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31st December 2016 except for deviations from the code provision A.2.1 and A.4.1 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.

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.

REPORT OF THE DIRECTORS

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 2016.

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 23 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 of Management Discussion and Analysis on pages 12 to 34, Chairman Statement on pages 5 to 11 and Environmental, Social and Governance Report on pages 68 to 96 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 2016 are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group and the Company are set out in the financial statements on pages 103 to 232.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016. (FY2015: 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, 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 AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 35 and 41 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE RESERVES

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

The Company's reserves available for distribution comprise the share premium account, less accumulated losses. As at 31 December 2016, the reserves of the Company available for distribution to shareholders amounted to HK$377,689,000 (2015: HK$372,622,000).

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 30 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 were:

Executives Directors:

Mr. Deng Jun Jie *(Chairman) (Appointed on 21 April 2017)*
Mr. Wang De Yin *(Chairman and Chief Executive Officer) (Resigned on 21 April 2017)*
Mr. Liu Feng
Mr. Lin Yue Hui *(Chief Executive Officer, appointed on 21 April 2017)*
Ms. Deng Xiao Ting
Ms. Chu Yin Yin, Georgiana

REPORT OF THE DIRECTORS

Independent non-executive Directors:

Mr. Guo Chao Tian
Ms. Qiu Na
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. Guo Chao Tin and Ms. Chu Yin Yin, Georgiana will retire from office by rotation and will offer themselves for re-election at the AGM.

According to Article 112 of the A.A, any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Ms. Qiu Na, who was appointed by the Board, shall hold office only until the Annual General Meeting ("**AGM**") and shall be eligible for re-election. Subsequent to the date of this Directors' report, Mr. Deng Jun Jie ("**Mr. Deng**") was appointed as an executive Director and a Chairman of the Company with effect from 21 April 2017. To comply with the aforesaid Article 112, Mr. Deng shall hold office only until the AGM and shall be eligible for re-election. Mr. Deng and Ms. Qiu being eligible, 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 35 to 38 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 2016, 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 2016, 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:

REPORT OF THE DIRECTORS

(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 2016.

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

Save as disclosed above, as at 31 December 2016, 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 2016, 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
Yue Xiu Great China Fixed Income Fund VI LP	Beneficial owner	79,872,000 (L) *(Note 2)*	5.00%
Yue Xiu Investment Management Limited	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	5.00%
Yue Xiu Investment Consultants Limited	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	5.00%
Yue Xiu Securities Holdings Limited	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	5.00%
Yue Xiu Enterprises (Holdings) Limited	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	5.00%
Guangzhou Yuexiu Holdings Limited	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	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: 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 3: The shareholding percentage in the company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2016.

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

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES 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.

REPORT OF THE DIRECTORS

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 159,653,976 share options under the Scheme, representing 10.00% of the issued share capital of 1,596,539,766 shares of the Company as at 31 December 2016.

REPORT OF THE DIRECTORS

(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 2016. From the date of the Scheme being adopted up to 31 December 2016, no options had been granted and remained outstanding under the Scheme of the Company.

REPORT OF THE DIRECTORS

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 2016, neither the Company nor its subsidiaries did purchase, redeem or sell of the Company's listed securities.

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 date of this 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 2016. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 51 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 2015 Annual Report required to be disclosed were as follows:

(i) the discretionary bonus was paid to executive Directors in respect of the year ended 31 December 2016, 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 35 to 38 of the Annual Report;

(iii) Mr. Wong Siu Keung Joe, an INED of the Company, was appointed as an INED of Worldgate Global Logistics Limited (Stock Code: 8292) with effective 17 June 2016 which is listed on the Growth Enterprise Market of the Stock Exchange;

REPORT OF THE DIRECTORS

(iv) On 21 September 2016, Mr. Li Jian Jun ("**Mr. Li**") has resigned as an INED and ceased to be the member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. At the same date, Ms. Qiu Na has been appointed as an INED and the member of the audit committee to replace Mr. Li. Also, Mr. Guo Chao Tian currently is an INED and the member of the audit committee. He has been appointed to be the member of each of the Remuneration Committee and the Nomination Committee to replace Mr. Li; and

(v) Subsequent to the date of this Directors' Report, the following changes of board members and board committees with effect from 21 April 2017 were:

- Mr. Deng Jun Jie ("**Mr. Deng**") has been appointed as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company;

- Mr. Lin Yue Hui ("**Mr. Lin**"), currently an executive Director of the Company, has been appointed as a Chief Executive Officer and is re-designated from a member to a Chairman of the Investment Committee of the Company; and

- Mr. Wang De Yin ("**Mr. Wang**") has resigned to act as a Chairman, a Chief Executive Officer, an executive Director and a Chairman of both of the Nomination Committee and the Investment Committee of the Company and other directorship in subsidiaries of the Group.

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 39 to 56 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 Friday, 16 June 2017. 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.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

In order to determine shareholders' eligibility to attend and vote at the forthcoming AGM of the Company to be held on Friday, 16 June 2017, the register of members of the Company will be closed from Tuesday, 13 June 2017 to Friday, 16 June 2017 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for entitlement to attend the AGM, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration, not later than 4:00 p.m. on Monday, 12 June 2017.

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
Lin Yue Hui
Director

Hong Kong, 29 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

China Water Industry Group Limited ("China Water", "the Group" or "We"), is born with the vision of "making the world endowed with clean water, blue sky and vivid green land". We have long been committing to utilizing garbage waste and maintaining environmental resources sustainable, through our core business of water supply, sewage treatment and exploitation and sale of renewable energy.

This is our third Environmental, Social and Governance (ESG) Report since 2014, covering the reporting period (the "Reporting Period") from 1 January 2016 to 31 December 2016, with an aim to summarize our fulfillment to the sustainable development. We hope to involve our stakeholders in the discussion of environmental, social and governance issues, so as to improve the sustainability management system as well as to take concrete steps to realize sustainability.

The content of this Report is prepared in accordance with the ESG Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 core business segments in (i) water supply; (ii) sewage treatment; and (iii) exploitation and sale of renewable energy. We have also taken our stakeholders' opinion in our determination of the reporting scope. In this year's report, we have included an index to the Stock Exchange ESG Reporting Guide to enhance the readability of this report.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HIGHLIGHTS OF THE YEAR IN 2016

Water supply business:

329,997,500 tonnes of clean water supplied to **5** cities

Renewable energy business:

133,760,000 kWh of green electricity generated

As at 31st December 2016,
10 landfill-gas-to-power projects are in operation

Equivalent to **1,257,000** tonnes of carbon dioxide emissions avoided

Sewage treatment business:

48,633,577 tonnes of sewage treated

3 sewage treatment projects are in operation

8,293.5 tonnes of Chemical Oxygen Demand ("COD") reduced. Water hypoxia that hinders water eco-system was prevented by alleviating the amount of organic waste in water

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Awards

Company	Award	Organization
China Water Industry Group Limited	BOCHK Corporate Environmental Leadership Awards	Bank of China (Hong Kong) Limited
Yichun Fangke Sewage Treatment Company Limited	2016 Jiangxi Province May 1st Labor Award	Jiangxi Federation of Trade Unions

Industry events participation

- 2016 Macao International Environmental Co-operation Forum & Exhibition
- Eco Expo Asia 2016
- The 3rd China Renewable Resources Recycling Industry Conference
- 2015 Annual Summit on Green and Low-Carbon Transformational Development and the International Carbon-Value Award organised by the World Economic and Environmental Conference

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

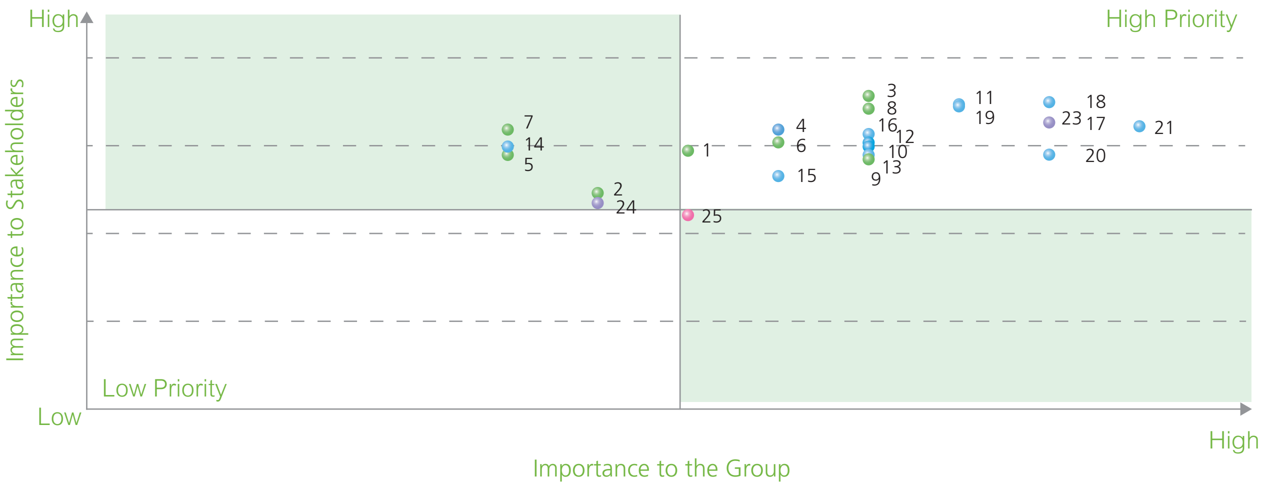
STAKEHOLDER ENGAGEMENT

Support from our stakeholders is of paramount importance to our long term success. Our stakeholders comes from different aspects, including employees, government, shareholders, business partners, non-governmental organization and community. We take the needs of different stakeholders into account when formulating business strategies so as to maintain favorable relationship with our stakeholders.

Materiality assessment

We make good use of diverse channels to communicate with our stakeholders both formally and informally during our operation. We have identified 25 material issues that were considered crucial to us and to our stakeholders and the result serves as a basis to the structure of this report.

Materiality Matrix



Material issues

1. Diversification and Equal Opportunities
2. Employee Turnover Rate
3. Occupational Safety and Health
4. Training and Development
5. Prevention of child and Forced Labor
6. Employment Relationship and Communication
7. Employee Benefits/Recreation
8. Sewage Disposal
9. Greenhouse Gas Emissions[1]
10. Exhaust gas Emissions[2]
11. Treatment of Hazardous and Non-Hazardous Wastes
12. Energy and Water Conservation
13. Use of Natural Resources
14. Supplier Environmental and Social Assessment
15. Carbon Trading System
16. Supplier Selection Process
17. Anti-Fraud and Corruption
18. Emergency Response Plan
19. Product Safety
20. Complaints Handling
21. Intellectual Property
22. Customer/Consumer Privacy
23. Research and Development
24. Participation in Voluntary Work
25. Donations

[1] Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

[2] Exhaust gas emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR APPROACH TO SUSTAINABILITY

As a responsible pioneer in the environmental industry, we understand the importance of sustainability. Our approach to sustainability is to put forward green business, enhance corporate governance, show care to our staff and contribute to the community. We take it serious in environmental protection for improvement to people's living standard. We take care and protect our staff in pursuit of work-life balanced. We also strive to participate in community services in different ways to contribute to our community.

Our focus areas

The group endeavors to the following 4 focus areas to achieve sustainability:

Green Business

- We follow all relevant laws and regulations across our businesses and strive to incorporate the best industry practices to our operations.
- We fully utilize garbage resources to minimizing its impact to the environment and to create green energy.
- We supply clean and safe water to the citizens.
- We enhance energy efficiently, conserve water and minimize waste and emission.
- We raise the environmental protection awareness of our staff, business partners and the public.

Corporate Governance

- We strictly comply with ethical standards and legal requirements.
- We proactively encourage our suppliers to fulfill social responsibility and ensure continuous improvement in supplier management.

Employee Care

- We properly adhere to all employment relevant laws and regulations to ensure all candidates are equally treated.
- We provide sufficient training to our staff to increase working efficiency and reduce mistake.
- We provide training to promote ethical standard and provide complaint channels to allow our staff to make a confidential complaint.
- Through staff participation, training, reward and other promotion activities of safety awareness, we provide our staff with a healthy and safe working environment.

Community Contribution

- We make good use of our resources to benefit the community.
- We highlight the importance of contributing to the community and proactively communicate with our stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GREEN BUSINESS

Target for 2016:

- **Speeding up technological innovation**
- **Promoting environmental protection internally and implementing low-carbon operation**
- **Optimizing customer service**

In 2016, The Group continues to embrace the corporate mission of "making the world endowed with clean water, blue sky and vivid green land", shouldering the social responsibility to proactively improve ecological environment and create values to our various stakeholders. We collect flammable landfill gas to generate electricity and produce compressed natural gas in landfills for sale. It not only reduces green house effect caused by the landfill gas, but also improves air quality and effectively eliminates risk of gas combustion accident. Meanwhile, it minimize the impact of unpleasant landfill smell to the surroundings, and create green energy that benefit the general public, enabling our mission of "making the world endowed with blue sky and vivid green land". Our sewage treatment projects prevent sewage from discharging directly to water source without being treated properly, protecting our water resources and ensuring water safety, "to make the world endowed with clean water".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Exploitation and sale of renewable energy

We believe there is invisible treasure in the garbage. We fully utilize garbage resources in the landfill by collecting landfill gas to generate electricity and produce compressed natural gas. As at 31st December 2016, the Group has been operating 10 power generation projects in Jiangsu, Hunan, Anhui, Hainan, Chongqing and Guangdong, delivering green power to the power grid, generating a total of 133,760,000 kilowatt-hour of green electricity. At the same time, we have been operating 4 compressed natural gas projects in Guangdong and Hunan, generating a sum of 24,340,000 m^3 of compressed natural gas. These garbage resources utilization projects have not only generated renewable electricity but also substantially alleviated the emission of greenhouse gases from landfills. In 2016, a total of 133,779,597 m^3 of landfill gas was collected and equivalent to 1,257,000 tonnes of carbon dioxide emission was avoided because of these projects.

The following is the accumulated achievement of our renewable energy business since 2014:

326,613,020
kWh of green electricity generated

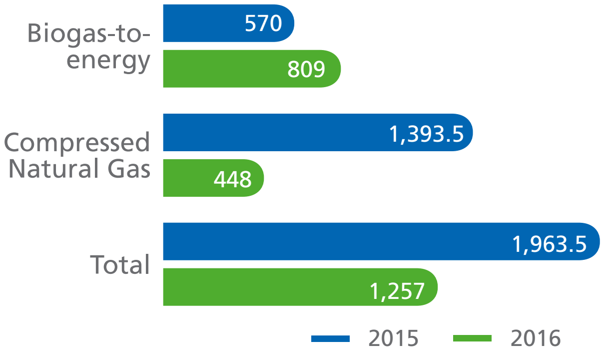
33,373,947 m^3
of compressed natural gas generated

equivalent to
5,021,682 tonnes
of carbon dioxide emission avoided

420,056,915
m^3 of landfill gas collected

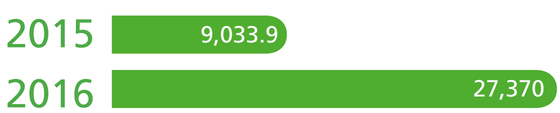
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Carbon Dioxide Emission Avoided by Type of Renewable Energy ('000 tonnes in equivalent)

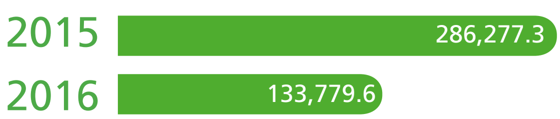


Green Electricity Generation ('000 kWh)

Compressed Natural Gas Production ('000 m³)



Landfill Gas Collected ('000 m³)



Our project companies adopt high emission standards and comply with all relevant 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 PRC on the Prevention and Control of Environmental Pollution by Solid Waste to ensure our operations meet the required standards. We ensure that the base of the landfill area and the surroundings are reinforced with impermeable clay layers and impermeable membranes to prevent contamination of the soil and groundwater due to leakage. Once each landfill unit is completely filled, we cover it completely with the soil layer and plant trees to integrate it with the surroundings areas. Closely monitor the environmental impact of the landfill zone will be conducted in the long term.

Research and development

With regard to the sustainable development of the renewable energy business, we invest a lot in technology research and development, and actively cooperate with world class universities, institutions and companies to enhance our capability in research and development. In 2016, we entered into a "Landfill gas (biogas) and Biomass Gasification Power Generation Poly-generation Efficient Technical Cooperation Agreement" with the Research Center of Biomass Gasification and Liquidation Engineering of Nanjing Forestry University, Engineering Research Center and the Chinese Academy of Engineering, Professor Zhang Qisheng of Nanjing Lin University. Professor Zhang has been committing to the study of biomass energy utilization for many years, he and his expert team established a workstation and introduced valuable biomass gasification power generation technology to our company. The implementation and transformation of their latest research result and technology as well as the development of demonstration project is definitely a milestone in the solid waste industry.

Through the cooperation with the expert team, we not only benefit from the advantage of research resources, but also get hold of the leading industrial technologies. We try our best to integrate the latest technological development and research result with our production. While upgrading the innovation ability of our research team, we also keep strengthening our core competitiveness.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Clean development mechanism (CDM) and Chinese certified emission reduction scheme (CCER) program

The establishment of the national carbon trading market in 2017 implies the coming of challenges and opportunities. We consider it more opportunities than challenges. 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. These schemes turn our environmental protection business into motivation and support to our business growth.

As at 31 December 2016, we have registered 6 CDM projects and 1 CCER project with 4 projects in progress for CCER registration.

Registered CDM projects

- Baoji Lingyuan Landfill Gas Recovery and Utilization Project
- Zhuzhou Landfill Site LFG to Power Generation Project
- Hunan Changsha Qiaoyi Landfill Gas Recovery and Electricity Generation Project
- Jiaozishan Landfill Gas Recovery and Utilisation Project
- Ningbo Yinzhou Landfill Gas Recovery and Utilization Project
- Shenzhen Xiaping Landfill Gas Collection and Utilization Project

Registered CCER projects

- Datang Huayin Chenzhou Environmental Power Generation Project

Projects in progress for CCER registration in 2016

- Liuyang City Domestic Landfill Gas Purification System Town Gas Project
- Qiaoyi Landfill Gas Comprehensive Utilization Construction Project
- Wuzhou City Domestic Refuse Landfill Biogas Power Generation Project
- Changshengqiao Garbage Sanitary Landfill Biogas Power Generation Project

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Sewage treatment business

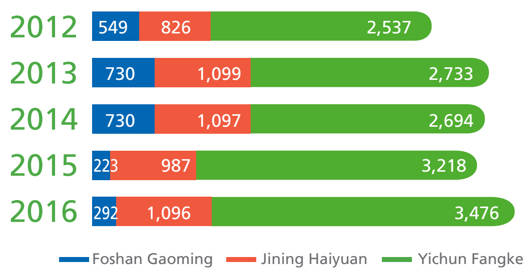
The Groups has 3 sewage treatment projects currently, located in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan respectively. The following is the achievement of our sewage treatment business in 2016:

Sewage treatment daily capacity is **170,000** tonnes

48,633,577 tonnes of sewage treated

8,293.5 tonnes of COD reduced

Volume of Wastewater Treated by Projects
(10,000 tonnes)



Reduction in COD
(Tonnes)

Accumulated achievement since the commissioning of first sewage treatment project in 2007:

318,987,284 tonnes of sewage treated

54,353.5 tonnes of COD reduced

Major projects in 2016:

- **Yichun Fangke Sewage Treatment Company Limited** invested in Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd.
- **Foshan City Gaoming Huaxin Sewage Treatment Company Limited** upgraded the entrance and exit facilities to ensure that equipment are properly functioned.
- **Jining City Haiyuan Water Treatment Company Limited** carried out repairment project for the aging phase 1 facility to prevent leakage due to cracks or fall off in order to ensure the stability of operation and meet water quality and safety standards.

We adopt the BIOLAK or the CASS technology in our sewage treatment facilities to ensure that all treated sewage would not cause negative impact to ecological balance and human health. Our project companies discharge treated effluent to designated locations according to agreements with the government. Our projects have obtained the Pollutant Discharge Permit. In 2016, all treated sewage is discharged either to the ocean or rivers, amounting 48,633,577 tonnes in total.

We actively explore the possibility of sludge recycling. Yichun Fangke Sewage Treatment Company Limited make use of the traditional solar energy greenhouse technology, integrating technology such as water source heat pump, circulating ventilation plasma deodorization, automation and remote control etc., to dehydrate the sludge. This is a newly innovated sludge dehydration technology which can reduce water content from 80% to 40%. The dehydrated sludge can be used as bricks, nutrient soil, compound fertilizer and auxiliary fuel. After the dehydration procedure which reduces water content and volume, a proportion of the sludge is sent to government designated landfills.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

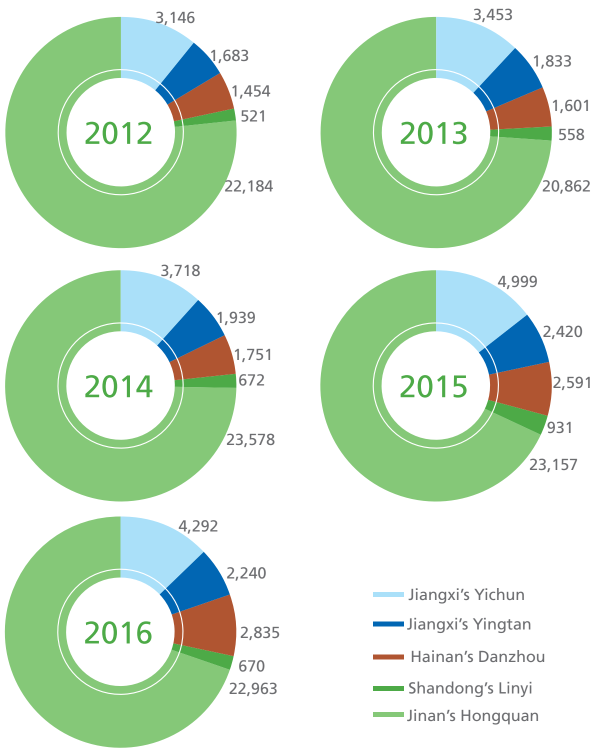
Total volume of treated sludge discharged by disposal method in 2016 (tonnes)

Fertilization	Brick-making	Earthworm Rearing	Total
10,638	11,534	3,413	25,585

Water supply business

Water is the source of life and the vitality of all creatures. We have 5 water supply projects, situated in Jiangxi's Yichun, Jiangxi Yingtan, Shandong's Linyi, Hainan's Danzhou and Jinan's Hongquan respectively. They supplied a total of 329,997,500 tonnes of water during the year, providing clean and safe water to our community. In 2016, we continue to embrace our principle of "Safe water supply, quality service", continue to expand our business and services, and gradually realize the high quality service by using information technology and internet, and comprehensively enhance the ability to serve the people, establishing a good corporate image.

Volume of Water Supply by Projects (10,000 tonnes)



Insomuch as domestic water quality directly affects the health of the public, control of water quality from source to users' tap is our top priority. All of our water supply project companies pay great attention to safety of water treatment processes. In order to ensure that water is treated in a hygienic environment, security management measures are stepped up to prevent potential contamination and health-associated risks around sanitary protection zone of water. We strengthen the management and monitoring of hygiene in operation to ensure that the drinking water meets the hygienic standard. We train and educate our 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. We also offer annual medical checkup for all operational staff to ensure employees' health.

Optimizing customer service

Quality is the lifeline for every industry and so do our Group. We reckon that only with the support and trust from our users can our Group sustain. We strongly believe that the key to success is to provide quality service and foresee and satisfy customer needs. We maintain high level of service quality in our daily operation to delight our customers so as to boost business growth and capital return.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The enhancement projects taken place during 2016 are as below:

- Jinan Hongquan Water Production Co. Ltd carried out phase 1 Security of Emergency Water Supply project in Jinan.
- Yingtan Water Supply Group Co., Ltd simplified application approval process to satisfy the heavy demand in summer.
- Yingtan Water Supply Group Co., Ltd strengthened the training for hotline service staff to improve service quality.
- Yichun Water Industry Co., Ltd launched the service of allowing customers to pay their water bills through Alipay and Wechat Pay, while Yingtan Water Supply Group Co., Ltd also launched payment services through Wechat pay, offering convenience to customers.
- Yichun Water Industry Co., Ltd carried out enhance project for pipelines in Huangpo Road, solving the water supply problem for the Jiangxi Light Industry Advanced Technical School.
- Yichun Water Industry Co., Ltd introduced new integrated water purification system for a beach side water plant to enhance the adaptability and purification ability for water source with different turbidity, largely enhance the water quality.
- Yichun Water Industry Co., Ltd carried out 9 enhancement projects for a beach side water plant such as the DN900 water pipes and DN1000 gate valve.
- Hainan Danzhou Water Company Limited* ran the emergency measures for abnormal water quality of raw water in times of the storm. They also established a water quality testing system and increased testing point and frequency of testing, closely monitor the change of water quality in each operation process.
- Hainan Danzhou Water Company Limited* established a water pipe leakage monitoring system in view of the high leakage rate of the city pipe network to reduce leakage.
- Linyi Fenghuang Water Industry Co., Ltd applied comprehensive dust and anti-corrosion paint for all production facilities, to maintain facilities in optimized condition, allowing full play of them and ensuring operation safety.

* For identification purpose only.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GREEN OPERATION

Besides protecting the natural environment through our green business, we also cultivate green philosophy in the heart of staff members of the Group, putting environmental protection into practice across operation. We reduce the impact to the environment brought by implementing the waste, sewage, waste gas and noise management. Green operation comes to a realization through streamlined management and information technology, supporting green development by self-initiatives.

Greenhouse gases emission management

Our major source of greenhouse gases emission is energy consumption. As such, we have carried out a wide range of energy saving initiatives. We optimized electricity supply system and building design, acquired imported energy saving production facilities and equipment, we also promoted energy-saving behaviours such as switching off idle lights and limiting use of air-conditioners, and advocated low-carbon and energy saving guideline to our staff. Proper adjustment of sewage treatment facilities was made according to water quality to achieve energy conservation.

To make efficient use of the landfill-gas-to-power projects, Nanjing Feng Shang New Technology Limited Liability Company* is utilizing residual heat from high temperature flue gas of generators. Internal combustion engines have a thermal efficiency of approximately 40%, while 45% of the heat is evacuated with the flue gas. Considering that using such portion of heat can largely enhance overall efficiency of energy conversion, we make use of the heat from the flue gas which is over 600 degrees to produce hot water for sale. In 2016, 200 tonnes of hot water is generated a day, this reduced the consumption of non-renewable resources for hot water consuming industry, reducing equivalent to 2,200 tonnes of standard coal used in a year.

In addition, we have a small amount of exhaust gas emissions from vehicles with different types of engines which generate residual oil-containing gases, carbon monoxide, carbon dioxide and abnormal black smoke and waste gas. We appointed environmental monitoring center to measure air pollution emission, according to the Monitoring and Measurement Procedure. Corrective actions will be taken according to the Non-compliance, Correction and Prevention Measures. We conduct daily inspection of the prevention and control of air pollution. Timely correction with record will be done once defects are identified. Fume purification devices are installed in canteens to reduce fume emissions. On the premise of satisfying functional requirements and performance, we try our best to use facilities, raw materials, fuel and etc. which produce minimal amount or concentration of pollutants, reducing emission from the source.

Noise management

We equipped large-scale machines and motor vehicles that generate loud noise and frequent vibration with silencer to reduce noise nuisance to nearby residents.

* For identification purpose only

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste management

We properly handle recyclable and non-recyclable hazardous wastes and garbage in accordance with the National Hazardous Waste Inventory.

We recycle garbage such as scrap metal, waste cloth, waste wood, waste paper, etc., and arrange proper disposal for non-recyclable garbage.

Qualified waste liquid facilities and waste collection facilities are installed to collect and disperse different types of waste. We closely monitor the performance of the recyclers by regular visit to ensure that they are capable and qualified. Our environmental management execution team conducts inspection half-yearly to make sure that the waste is properly handled.

Sewage management of the renewable energy projects

The discharge of our sewage is in line with National Sewage and Pollutant Discharge Standards, and we try our best to further reduce the discharge of sewage and the concentration of emissions. For the sewage we cannot properly treat, it will be handled in accordance with the provisions to the designated processing agency. We strive to prevent accidents and have developed emergency handling procedures to mitigate in case of sewage leakage and to minimize the impact of the accident to the environment. We also regularly monitor the effluent discharge targets with the help of the city's environmental monitoring center.

Water conservation measures

We are highly concerned about the water consumption by our project companies. We installed low-flow water-saving devices and implemented water-saving policies to reduce water consumption. Waste water is recycled for plant watering and road washing. We also adopt water-saving technology and equipment, and eliminate the old and high water consuming equipment, reducing unnecessary waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE GOVERNANCE

Target for 2016

- **Complying to ethical standards and legal regulations.**
- **Establishing an effective risk management framework to strengthen internal controls.**
- **Encouraging suppliers to fulfill their social responsibilities and ensuring continuous optimization of supplier management.**

We pursue the "Morality first, Integrity and Practicability" principle. We believe that a robust governance framework forms a concrete foundation for sustainable development and growth. We hold ourselves to uncompromising ethical and legal standards with the fundamental qualities of integrity, honesty and fairness deeply rooted in our culture. To bring all our operations in line with Group's commitment to the high standards of corporate governance, we have adopted a series of business conduct, employee policies, supply chain policies, our environmental protection practices and our commitment to social responsibility and the wider communities.

We attach importance to supervision and risk management. We have internal audit departments to carry out annual risk assessment and internal control review, and report its effectiveness to the Audit Committee and the Board of Directors. For more information, please refer to the Corporate Governance Report.

With regard to a range of ethical issues and professional conducts encompassing our zero–tolerance position on bribery, extortion, fraud, money laundering and other forms of misconducts, the Code of Conduct details our expectations on employee behaviors. Penalty will be imposed to whoever participated in any of these activities. We provide training and whistle blowing channels to encourage our employees to report any misconduct behaviors and we protect the reporting staff and the collected information. During the Reporting Period, there is no case of bribery, extortion, fraud and money laundering.

Our water supply companies handle users' information with the strictest confidentiality. We follow all relevant requirements to prevent any improper use of customer data. During the Reporting Period, there is no reported case of privacy infringement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supplier management

The Group is committed to complying with relevant laws and regulations during its operation and expects suppliers to uphold integrity and impartial treatment of employees and to comply with the Code of Conduct. We have developed a "Contractor Safety Management System" and "Supplier Management Procedures" to establish a transparent and impartial code for supplier selection and management, requiring our business partners and suppliers to operate with integrity, treat employees equally and ensure compliance with applicable laws and regulations.

To facilitate sustainability of the supply chain, we try to work with neighboring suppliers to minimize the carbon footprint and support local economic development. We work with business partners and suppliers who implement environmental and social responsibility policies.

The Group shares the best practices and encourages honesty and accuracy in disclosure of information. We document suppliers' performance for future reference. The Group maintains human rights and labor rights in the supply chain. We do not tolerate the use of child and forced labor in our operation and we expect the same for our suppliers.

We actively encourage our suppliers to shoulder social responsibility. We review our suppliers not only on their services and product quality but also on issues such as human rights, occupational health and safety and environmental protection. We develop standards for our suppliers and create List of Approved Suppliers. We regularly visit our suppliers to evaluate if they fulfill all relevant regulations. We assess our suppliers in terms of supply ability, price, reputation and sustainability performance to sort out the quality and eliminate the unqualified, ensuring continuous optimization of supplier management.

For instance, when we source for special protective equipment for staff, the supplier is required to provide "3 certificates plus 1 mark", which are production license, inspection certificate, safety certification and safety mark.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYEE CARE

Target for 2016:

- **Optimizing performance appraisal systems to reward talents.**
- **Providing training to enhance staff capability.**
- **Investing in safety protection equipment and monitoring implementation of safety procedures to enhance occupational safety.**

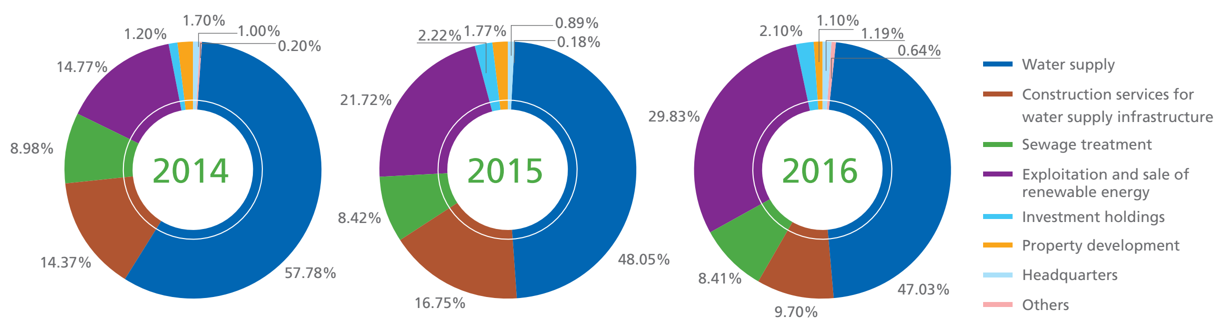
Talent acquisition and retention

China Water seeks and welcomes talent from all circles. To support our business growth, we recruit talents through newspaper, notice board, talent market, jobs center, talent website, internal promotion or referral.

We provide equal opportunities to all applicants and current employees to ensure fair treatment during recruitment, salary review, benefits, promotion and termination irrespective of their gender, nationality, age, religion, marital status, sexual orientation, disability and etc. We also offer internal transfer opportunities to allow our staff to acquire new experience, skills and knowledge from different roles.

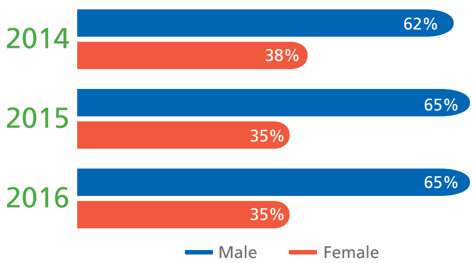
As at 31st December 2016, there are 1,093 employees in total, with 384 female employees, comprising of 35% of total employees. All of our employees located in China (including Hong Kong).

Distribution of employee by business segment

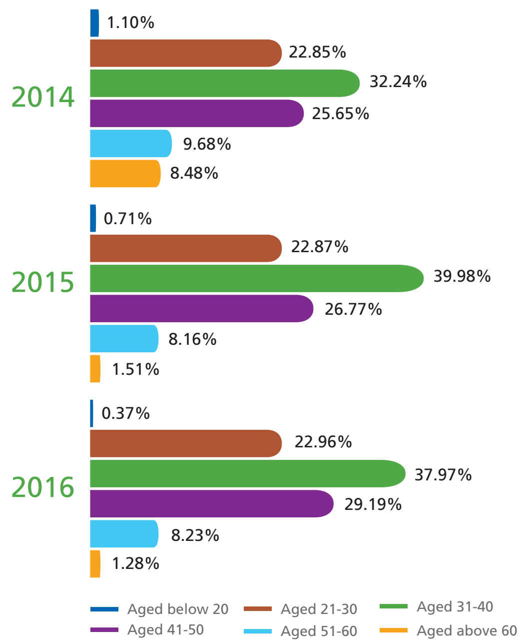


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

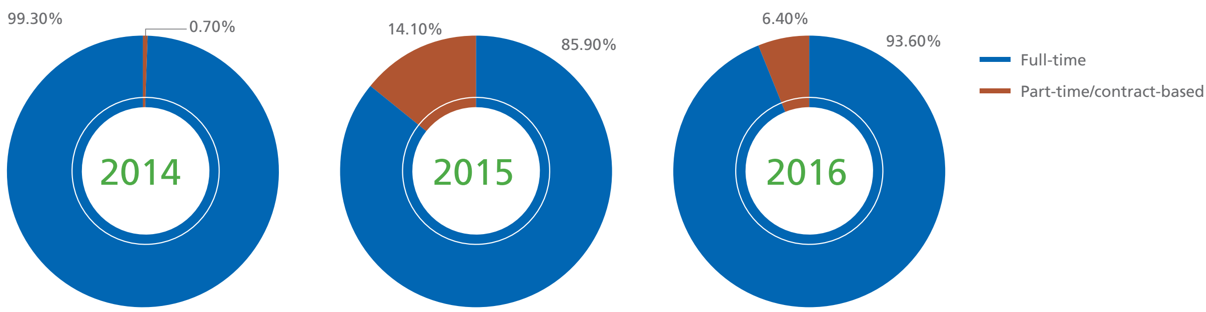
Distribution of employee by gender



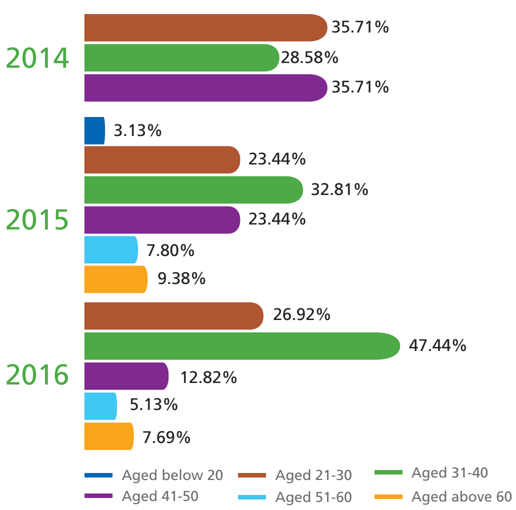
Distribution of employee by age group



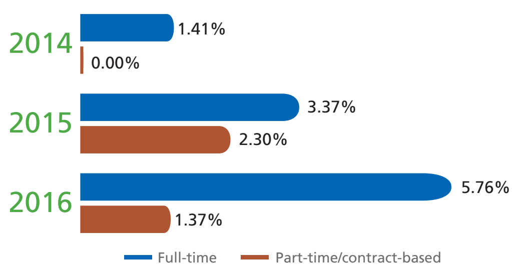
Distribution of employee by employee category



Staff turnover by age group



Staff turnover by employment category



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee benefit

We respect the rights and interests of employees and strictly comply with the laws and regulations regarding employment including the Labour Law of the PRC ("**the Labour Law**"), the Labour Contract Law of the PRC, the Regulations on the Implementation of the Employment Contract Law of the PRC and Law of the PRC on the Protection of Rights and Interests of Women. We do not force employees to work overtime. If overtime is unavoidable because of production needs, we require the maximum working hours per week should not exceed 60 hours while monthly overtime should not exceed 36 hours, and our employees enjoy 24 hours off for every 6 consecutive days of work. We also offer compensation for overtime in accordance with the provisions of the Labour Law.

We have established a comprehensive remuneration and performance appraisal policy. We regularly review and evaluate the performance and development of our employees. In addition to statutory employee benefits for full time staff including social security scheme and leaves for paternity, funeral and sickness, our project companies offer different fringe benefits, for instance, staff dormitory, festival bonus, travel allowance, communication allowance and working meal. We also purchase insurance for our employee and their family members for further protection.

We emphasize gender and racial equality in our human resource policy and forbid child and force labor. We protect our employees from over-work and strictly follow the Regulation on Paid Annual Leave of the Employees. We also provide regular health check for all employees and special health check for particular positions. We continuously improve employee working environment to ensure they work healthily.

We established Complaint or Recommendation Procedure to enable staff feedback their complaint and allow them to resolve disputes or misunderstandings peacefully. Employees may file complaints to staff union through suggestion box, telephone or in person. The union protects the privacy of the complainant's identity and the complaint content would not be disclosed without consent.

Protecting our female staff

To protect the rights of our female staff regarding their safety, physical and mental health, we established Protection Policy for Female Staff. We have review mechanism to ensure that female employees would not be terminated in place because of pregnancy, maternity leave, breastfeeding and etc. We ensure that they have the right to a basic wage and they would not be discriminated during salary review, promotion and work assignment. We offer necessary arrangement for pregnant staff to avoid dangerous duties.

Communication with employees

We listen to our staff, value their opinion and demand. We adopt an open and cooperative attitude to maintain mutual trust. We keep our staff abreast of the latest news about management policy and operational strategy by means of email, meeting and announcement. Meanwhile, we try to understand their views and thoughts through face-to-face discussion and employee survey. Our company magazine, "Sound of Water", takes a further step to strengthen our intercommunication. It serves as a platform for staff to voice out their opinions about the company and to share their experience in life, and for the Group to update latest development and industry news, to enhance mutual recognition and understanding.

Fostering work-life balance

To allow our staff to balance their work and social life, and enhancing company cohesion and a sense of belonging, we organized a wide variety of activities such as reading club, sports competition, outing activities and hiking, so that they can relax from the hustle and bustle of work. We hope it can also serve as an opportunity for communication and team building.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The following are some major events throughout the year:

China Water Industry Group Limited

- The Group 2nd "Sound of Water" Outreach Training
- 2016 Orientation Night
- "Trip of the Heart" Outreach Training

Shenzhen City Li Sai Industrial Development Limited*

- Wine Tasting

Jinan Hongquan Water Production Co. Ltd

- Badminton Competition

Yichun Fangke Sewage Treatment Company Limited*

- "Team Spirit Enhancement" Outreach Training

Yichun Water Industry Co., Ltd

- "Party Foundation 95th Anniversary: Ecological Civilization of Jiangxi" Photography Contest
- May 4th Youth Event
- The 2nd Outreach Training

Hunan Feng Ming Energy Technology Limited*

- Mingyue Shan Hiking Event

Occupational Health and Safety

We comply with the Fire Prevention Law of the PRC, Law of the PRC on Work Safety, Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Occupational Diseases, Regulations on the Safety Administration of Hazardous Chemicals, Provisions on the Supervision and Administration of Occupational Health at Work Sites and other applicable national laws and regulations. We implement safety responsibility system to provide our employees with a safe and healthy working environment.

Our business operations involve dangerous working process such as use of fire, work at height, cutting, noise, hazardous gases, flammable and explosive materials. Therefore, we established an operational safety team at each project company to be responsible for providing safety training, developing safety procedures and monitoring the implementation of safety procedures.

The following are some safety measures taken place:

- Smoking and use of fire in the operation or storage area of flammable and explosive materials is strictly forbidden. We regularly inspect to eliminate risk of fire.
- Sufficient Protective gear such as insulated gloves and shoes, dust/gas mask and earplugs etc. are provided to staff with regular reminders on proper usage.
- Supervision is required for operations such as flaming and welding.
- Employees should receive adequate training. For instance, in some project companies, new joiners are required to receive 3-level safety training and pass relevant tests to obtain safety certificate. Some specialists are also required to hold special work certificate issued by the State Administration of Work Safety.
- Safety signs are clearly labeled in workplace.
- Employees are entitled to body check at least biennially.
- Emergency drills are performed regularly.
- Safety inspections are conducted weekly, with remediation to weakness in a timely manner.

We adopted the 6S management principle (Seiri, Seiton, Seiso, Seiketsu, Shitsuke and Safety) to enhance efficiency, ensure quality, and maintaining workplace tidiness as well as cleanliness by following the principle of prevention first to ensure safety. For instance, during

* *For identification only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

the gas collection process, management code has been formulated for project materials, equipment, working procedure and workers. We abide by the Gas Site Management Regulation, integrating the 6S management principle into every working procedure. Properly hand-over before moving to next process. Job duties and responsibilities are clearly defined. Project manager provides adequate supervision during the project and do evaluation at the end of the project to learn from experience for enhancing future work performance of the team.

We place great emphasis on efficiency in case of emergency. As such, training for emergency handling such as escape and first aid is adequately provided. We also send selected staff to received professional training in fire service department or hospitals. Emergency command teams are formed to develop comprehensive emergency response plan, including in case of chemical leakage, electric shock, gas accident, equipment operation accidents, natural disasters, major casualties, suspension of power supply, fire, serious employee-involved accidents, environmental pollution and other accidents. In addition, we regularly carry out food test for canteens, to ensure that the chefs are in good health condition and the ingredients are fresh and safe. There are also regular large-scale cleaning for canteens and dormitories.

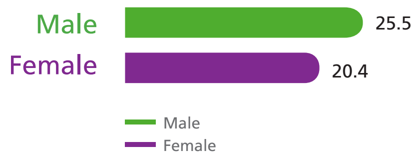
To prevent the spread of infectious diseases, we have formulated the Infectious Disease Management Procedures, Prevention of Blood Contact with Infectious Diseases and Pest Control Procedures to protect the health and safety of employees.

Talent Training

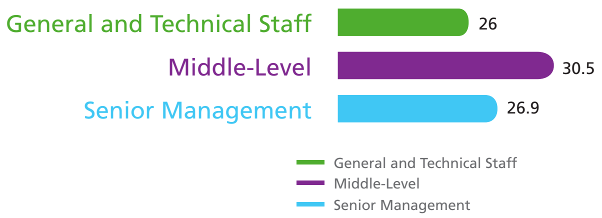
To embrace the Group's philosophy in talent management of "Professional-orientation and Talent Maximization", we organize special training to match with the different knowledge and skill requirement by different businesses. Some project companies establish online school to allow the staff to watch training videos at their convenience. In response to production needs, we send outperformed staff to undergo professional training in various occupational training organizations and invite professionals to hold talks for enhancing the technological skills of our employees.

In 2016, a range of internal and external training has been organized in areas including (i) management and communication, (ii) compliance and regulations, (iii) health and safety and (iv) operation and skills.

Average training hours by gender



Average training hours by employment category



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The below are the trainings in 2016:

Training Areas	Training target	Training category/training session names
Management and communication	Management	• Directors Training • Occupation mentality training • Management and communication training • Training on supervision • Financial training for management • Training on official document • Basic management principle
Compliance and regulations	All staff	• Orientation training • Training on company policy and rules
Health and safety	Staff in renewable energy, sewage and water supply segment	• Production safety, relevant laws and regulations • Fire prevention training • Mechanical safety training • Prevention of occupation disease in operation units • Emergency management and rescue planning • Safety application of equipment • Storage of hazardous materials • First aid • Environmental pollution accident • Accident prevention and handling • Safety management of pressure container
Operation and skills	Staff in renewable energy segment	• Power plant safety • Power plant management • Landfill gas collection technology • Safety on flammable gas operation corporation • Mechanical facilities maintenance and operation management • Gas collection technology • Gas-to-power facilities basic procedure • Electricity subsidy declaration procedure • Analysis of difficulties on design and construction • Knowledge on electricity • High voltage electricity • Working in height
	Staff in sewage treatment segment	• Pre-Job training • Sewage treatment • Sludge treatment • Laboratory testing
	Staff in renewable energy segment	• Pre-job training • Stainless steel pipe clamping construction training • CAD drawing software • Water quality testing • Electrician training • Training on sale management • Electro-technology and circuit maintenance training • Training on electrical automation

We established probation, annual appraisal, Best Enterprise Management Award, Individual Outperformance Award and so on to review employee's ability, performance and motivation, creating a competitive working environment. In order to strengthen team spirit, some project companies reward the most outperformed team while the Group also sets up Most Improvement Enterprise Award, Group Management Enterprise Gold Award, Corporate Management Team Award, Best Team Award and etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY CONTRIBUTION

Target for 2016:

- **Continuing to offer more opportunities to encourage staff to participate in community activities.**
- **Further strengthening promotion of environmental protection, fostering education in environmental protection.**
- **Organizing more volunteering work to benefit the wider community.**

The sustainable growth of the Group is indispensable with the support and trust from the country and the community. We thank and make effort in community harmony, putting social responsibility into practice. We participate in charitable events and actively play a role in local economic construction in the hope of enhancing quality of life of the public as well as the development of the society. A sound relationship with the community lays the foundation of the development of a company. We attach importance to maintain good relationship with the community where we operate. While we share the benefit of the community, we contribute and bear the responsibility of community development. We consider our own competitive advantage as well as the needs of the local community when investing in new projects. We provide jobs and training opportunities, and purchase materials locally to support local economic development.

The below are our major community contributions throughout the year:

Charitable donations

- **Linyi Fenghuang Water Industry Company Limited*** offered discounts to residents who hold the "Urban Resident's Minimum Living Guarantee Certificate" or "Special Difficulty Card".
- **Yichun Water Industry Co., Ltd** donated about RMB13,000 to a burned little boy.
- **Jinan Hongquan Water Production Co. Ltd** organized a fundraising event for the poor.
- **Hunan Feng Ming Energy Technology Limited*** carried out charitable fundraising event on Chongyang festival.

* For identification purpose only.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Volunteering work

- **Yingtan Water Supply Group Co., Ltd** actively responded to the promotion "Disaster Prevention and Mitigation Day".
- **Yichun Water Industry Co., Ltd** arranged members of the company and representatives from Union to visit the stationed force. They brought along gifts to send blessing for the celebration of the August 1st Army Foundation Day.
- **Yichun Water Industry Co., Ltd** actively participated in the "Safety Production Month" promotional day event organized by the City Security Committee. They set up a consultation point in the square, arranged relevant staff to provide education about water safety.
- **Yichun Water Industry Co., Ltd** participated in volunteer service activities.
- **Jinan Hongquan Water Production Co. Ltd** was actively involved in the volunteer service of "Be a Civilized and Polite Jinan Citizen".
- **Jinan Hongquan Water Production Co. Ltd** visited the left-behind children.
- **Yichun Fangke Sewage Treatment Company Limited*** participated in the "Charity Donation A Day" organized by the Civil Affairs Bureau, each donating one day's salary.
- **Yichun Fangke Sewage Treatment Company Limited*** participated in the activities of the "Hope House" Volunteer Association during the weekends.

Environmental protection promotion

- **Yichun Fangke Sewage Treatment Company Limited*** carried out volunteering work to beautify the surroundings of the factory to raise employees' and the public's environmental awareness.
- **Jining City Haiyuan Water Treatment Company Limited*** organized the Environmental Protection Open Day on every June 5th. Since the establishment of this event, more than 30 groups with over 1000 visitors.

* For identification purpose only.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEx Reporting Guide

A. Environmental		Chapter/Disclosure	Page
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Green Business Our operation has complied to relevant laws and regulations that have a significant impact on our business.	73-81
KPI A1.1	The types of emissions and respective emissions data.	This category is currently not reported.	N/A
KPI A1.2	Greenhouse gas emissions in total and where appropriate, intensity.	This category is currently not reported.	N/A
KPI A1.3	Total hazardous waste produced and where appropriate, intensity.	This category is currently not reported.	N/A
KPI A1.4	Total non-hazardous waste produced and where appropriate, intensity.	This category is currently not reported.	N/A
KPI A1.5	Description of measures to mitigate emissions and results achieved.	This category is currently not reported.	N/A
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	This category is currently not reported.	N/A
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		Green Business	73-81
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	This category is currently not reported.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI A2.2	Water consumption in total and intensity.	This category is currently not reported.	N/A
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Green Business	73-81
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Green Business	73-81
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	This category is not applicable to our business.	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		Green Business	73-81
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Business	73-81
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Employee Care	84-89
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Talent Acquisition and Retention	84-85
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Talent Acquisition and Retention	84-85

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.		Occupational Health and Safety	87-88
KPI B2.1	Number and rate of work-related fatalities.	There is no reported work-related fatality during the reporting period.	N/A
KPI B2.2	Lost days due to work injury.	This category is currently not reported.	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	87-88
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Talent Training	88-89
KPI B3.1	The percentage of employees trained by gender and employee category.	This category is currently not reported.	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Talent Training	88-89
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Our "Recruitment Management Policy" comply to the national's "Prohibition of the use of Child Labour Regulation" and explicitly prohibit the use of those who are under the age of 16. In 2016, there is no reported case of the use of child labour.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	We review the "Recruitment Management Policy" annually to avoid the use of child labour and forced labour.	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	We impose punishment to those who violate the company's rule of using child labour and forced labour. We also set up a penal to ensure the victims are adequately protected.	N/A
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supplier Management	83
KPI B5.1	Number of suppliers by geographical region.	This category is currently not reported.	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	This category is currently not reported.	N/A
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Health and Safety of products and services Water Supply Business Advertising, labelling and privacy We comply with relevant laws to keep users privacy confidential. In 2016, there is no reported complain case concerning advertising, labelling and privacy.	78-79 N/A
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	This category is not applicable to our business.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	This category is currently not reported.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	This category is currently not reported.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

KPI B6.4	Description of quality assurance process and recall procedures.	Quality Assurance Process Green Business Recall Procedures This category is not applicable to our business.	73-81 N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	This category is currently not reported.	N/A
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Corporate Governance There is no reported case of violation of the relevant laws and regulations.	82-83
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	There is no occurred or on-going case of legal cases regarding corrupt practices brought against us or our employees during the reporting period.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Corporate Governance	82-83
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Community Contribution	90-91
KPI B8.1	Focus areas of contribution.	This category is currently not reported.	N/A
KPI B8.2	Resources contributed to the focus area.	This category is currently not reported.	N/A

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

CHINA WATER INDUSTRY GROUP LIMITED
To the Shareholders of China Water Industry Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 232, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition For water customers with water meters, the amount recognized depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. This is a key judgement because the estimated usage is based upon historical data and assumptions around consumption patterns.	We have reviewed the design and implementation of management's controls around this risk; We have challenged the key assumptions and estimates made by management in recognising revenue. We performed detailed analytical procedures by comparing revenue balance for the year against the total sales value of units supplied at the year ended. We also assessed the adequacy of the Group's disclosures of its revenue recognition and other related disclosures.
Impairment assessment The Group has HK$454,530,000 of property, plant and equipment, HK$483,794,000 of operating concession intangible assets; and HK$189,821,000 of other intangible assets. Their recoverable amount is based on an assessment of the greater of its fair value less cost of disposal and its value in use. Value in use is calculated as the net present value of estimated future cash flows. The Group's assessment of impairment is a judgemental process which requires estimates concerning the estimated future cash flows and associated discount and growth rate based on management's view of future business prospects.	We assessed and challenged the impairment analysis prepared by the board of director as outlined below:– With regard to the overall impairment assessments performed by the board of director, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We also reviewed the assets not assessed by management for impairment indicators and no indicators were identified. We used valuation experts to assist our evaluation of the appropriateness of the models and the key assumptions used by management and management's valuer. We evaluated the reasonableness of the management cash flow forecasts by comparing the assumptions made to internal and external data. We tested these assumptions by reference to third party documentation where available.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
	We challenged the key assumptions used in each impairment model and performed sensitivity analysis around key drivers of cash flow forecasts, including growth rates, operating costs, and expected life of assets. We challenged the discount rate used to determine the present value by assessing the cost of capital for the Group and comparable organizations and considered them to be reasonable. Furthermore, we obtained evidence to assess adequate historical accuracy in management's forecasting process. Based on our analysis and the analysis performed by the valuation experts, we did not identify any material issues with the valuation of the assets and goodwill, the accuracy of the impairment and the disclosures in the financial statements.
Acquisition of subsidiaries The Group has undertaken a number of significant transactions during the current year. There is risk that the acquisition accounting for the acquisitions made in the year, as set out in Note 38, has not been correctly applied. Specifically, there is a risk that incorrect judgements are made which results in the inaccurate allocation of values to acquired intangibles.	We used valuation experts to assist our evaluation of the basis of asset allocation analysis and challenging the key assumptions, such as discount rate, used by the Group to assign a fair value to the intangible assets identified in the acquisition. We performed procedures to assess the fair value of the assets and liabilities acquired and assessed the accounting treatment adopted, with reference to the significant judgements and estimates involved. We considered the date at which the transactions completed based on the acquisition agreement. We considered the adequacy of the disclosure of the transactions in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company 2016 annual report other than the consolidated financial statements and our auditor's report thereon (the "Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the audit committee in discharging their responsibilities of overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alvin Yeung Sik Hung.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2017

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	7	**550,646**	528,586
Cost of sales		**(326,664)**	(343,566)
Gross profit		**223,982**	185,020
Other operating income and expenses	9	**76,566**	52,273
Reversal of impairment loss recognised on an associate	24	**–**	33,540
Reversal of impairment loss recognised on trade and other receivables	26	**70**	359
Selling and distribution expenses		**(29,918)**	(30,931)
Administrative expenses		**(169,819)**	(140,306)
Finance costs	10	**(24,083)**	(8,842)
Change in fair value of investment property	20	**1,613**	410
Change in fair value of derivative financial instruments		**–**	46
Net gain/(loss) on financial assets at fair value through profit or loss		**22,304**	(90,631)
Net gain on disposal of available-for-sale investments		**35,699**	12,716
Impairment loss recognised on:			
property, plant and equipment	16	**–**	(1,622)
concession intangible assets	18	**–**	(6,384)
goodwill	21	**–**	(4,066)
other intangible assets	21	**–**	(874)
available-for-sale investments	22	**(9,704)**	(58,537)
trade and other receivables	26	**(481)**	(161)
Share (loss)/profit of associates	24	**(1,412)**	7,332
Profit/(Loss) before taxation		**124,817**	(50,658)
Income tax	11	**(39,915)**	(19,940)
Profit/(Loss) for the year	12	**84,902**	(70,598)
Attributable to:			
Owners of the Company		**31,263**	(97,497)
Non-controlling interests		**53,639**	26,899
		84,902	(70,598)
Earnings/(loss) per share (HK cents):	15		
Basic		**1.96**	(6.56)
Diluted		**1.96**	(6.56)

The notes on pages 112 to 232 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Profit/(loss) for the year		**84,902**	(70,598)
Other comprehensive loss for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchanges difference on translation of financial statements of foreign operations			
Exchange difference arising during the year		**(86,865)**	(86,509)
		(86,865)	(86,509)
Available-for-sale investments:			
Net loss arising on revaluation of available-for-sale investments during the year		**(13,400)**	(22,777)
Reclassification upon impairment		**9,704**	58,537
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**(10,455)**	(12,716)
		(14,151)	23,044
Share of other comprehensive loss of associates	24	**(1,714)**	(5,775)
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of investment property upon transfer from property, plant and equipment		**4,785**	–
Deferred tax liability arising on gain on revaluation of properties		**(1,196)**	–
		3,589	–
Other comprehensive loss for the year, net of income tax		**(99,141)**	(69,240)
Total comprehensive loss for the year		**(14,239)**	(139,838)
Attributable to:			
Owners of the Company		**(46,975)**	(125,770)
Non-controlling interests		**32,736**	(14,068)
		(14,239)	(139,838)

The notes on pages 112 to 232 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	16	**454,530**	277,405
Deposits paid for acquisition of property, plant and equipment		**30,583**	60,609
Deposits paid for acquisition of subsidiaries	48	**29,769**	29,843
Prepaid lease payments	17	**104,030**	22,189
Operating concessions	18	**483,794**	503,825
Receivables under service concession arrangements	18	**31,493**	39,149
Investment property	20	**32,510**	–
Other non-current assets	19	**19,369**	20,711
Other intangible assets	21	**189,821**	173,093
Available-for-sale investments	22	**90,437**	181,424
Interests in associates	24	**71,534**	74,660
Deferred tax assets	37	**9,342**	7,096
		1,547,212	1,390,004
Current assets			
Inventories	25	**184,589**	204,383
Receivables under service concession arrangements	18	**5,122**	6,109
Financial assets at fair value through profit or loss	22	**232,808**	220,061
Trade and other receivables	26	**286,237**	305,606
Prepaid lease payments	17	**1,645**	1,053
Amounts due from customers for contract works	29	**4,982**	13,463
Tax recoverable		**–**	4,111
Cash held by financial institutions	27	**341**	923
Bank balances and cash	27	**489,896**	475,950
		1,205,620	1,231,659
Current liabilities			
Overdraft held at financial institutions	27	**31,058**	–
Trade and other payables	28	**256,255**	306,042
Amounts due to customers for contract works	29	**155,781**	112,180
Bank borrowings	30	**48,729**	29,007
Other loans	31	**295,265**	203,982
Obligations under finance leases	32	**10,444**	–
Amounts due to non-controlling shareholders of subsidiaries	33	**32,808**	27,903
Loans from associates	34	**2,927**	3,130
Tax payables		**27,126**	31,550
		860,393	713,794
Net current assets		**345,227**	517,865
Total assets less current liabilities		**1,892,439**	1,907,869

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital	35	**798,270**	798,270
Share premium and reserves		**465,582**	512,557
Equity attributable to owners of the Company		**1,263,852**	1,310,827
Non-controlling interests		**374,355**	341,732
TOTAL EQUITY		**1,638,207**	1,652,559
Non-current liabilities			
Bank borrowings	30	**74,245**	103,852
Other loans	31	**64,947**	79,627
Obligations under finance leases	32	**20,320**	–
Government grants	36	**29,550**	17,256
Deferred tax liabilities	37	**65,170**	54,575
		254,232	255,310
		1,892,439	1,907,869

Approved and authorised for issue by the board of directors on 29 March 2017:

Lin Yue Hui
Director

Liu Feng
Director

The notes on pages 112 to 232 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital HK$'000 (note 35(b))	Share premium HK$'000 (note 35(c))	Revaluation reserve HK$'000 (note 35(c))	Translation reserve HK$'000 (note 35(c))	Reserve fund HK$'000 (note 35(c))	Investment revaluation reserve HK$'000 (note 35(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 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 20)	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital HK$'000 (note 35(b))	Share premium HK$'000 (note 35(c))	Revaluation reserve HK$'000 (note 35(c))	Translation reserve HK$'000 (note 35(c))	Reserve fund HK$'000 (note 35(c))	Investment revaluation reserve HK$'000 (note 35(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	798,270	954,318	–	(9,671)	29,685	23,044	(484,819)	1,310,827	341,732	1,652,559
Changes in equity for 2016:										
Profit for the year	–	–	–	–	–	–	31,263	31,263	53,639	84,902
Other comprehensive income for the year:										
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	2,440	–	–	–	–	2,440	2,345	4,785
Deferred tax arising from revaluation on investment property	–	–	(610)	–	–	–	–	(610)	(586)	(1,196)
Exchange difference arising on translation	–	–	(82)	(64,121)	–	–	–	(64,203)	(22,662)	(86,865)
Share of other comprehensive income of associates	–	–	–	(1,714)	–	–	–	(1,714)	–	(1,714)
Fair value loss on available-for-sale investments	–	–	–	–	–	(13,400)	–	(13,400)	–	(13,400)
Reclassification on impairment of available-for-sale investments	–	–	–	–	–	9,704	–	9,704	–	9,704
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(10,455)	–	(10,455)	–	(10,455)
Total comprehensive income for the year	–	–	1,748	(65,835)	–	(14,151)	31,263	(46,975)	32,736	(14,239)
Capital contribution from non-controlling shareholders of a newly incorporated subsidiary	–	–	–	–	–	–	–	–	1,500	1,500
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(1,613)	(1,613)
Transfers to reserve funds	–	–	–	–	12,529	–	(12,529)	–	–	–
At 31 December 2016	798,270	954,318	1,748	(75,506)	42,214	8,893	(466,085)	1,263,852	374,355	1,638,207

The notes on pages 112 to 232 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Operating activities		
Profit/(loss) before taxation	**124,817**	(50,658)
Adjustments for:		
Depreciation of property, plant and equipment	**32,667**	14,691
Amortisation of prepaid lease payments	**973**	1,443
Amortisation of concession intangible assets	**23,564**	19,868
Amortisation of other intangible assets	**17,874**	10,498
Impairment loss recognised on:		
– property, plant and equipment	**–**	1,622
– concession intangible assets	**–**	6,384
– goodwill	**–**	4,066
– other intangible assets	**–**	874
– available-for-sale investments	**9,704**	58,537
– trade and other receivables	**481**	161
Reversal of impairment loss recognised on an associate	**–**	(33,540)
Reversal of impairment loss recognised on trade and other receivables	**(70)**	(359)
Change in fair value of investment properties	**(1,613)**	(410)
Change in fair value of derivative financial instruments	**–**	(46)
Finance costs	**24,083**	8,842
Interest income	**(19,873)**	(7,886)
Fund dividend income	**–**	(10,435)
Government grant income	**(10,949)**	(6,224)
Loss/(Gain) on disposal of property, plant and equipment and prepaid land lease	**152**	(225)
Net gain on disposal of available-for-sale investments	**(35,699)**	(12,716)
Net (gain)/loss on financial assets at fair value through profit or loss	**(22,304)**	90,631
Gain on bargain purchase arising from acquisition of a subsidiary	**(1,808)**	–
Share of loss/(profit) of associates	**1,412**	(7,332)
Changes in working capital:		
Decrease/(increase) in inventories	**20,146**	(12,730)
Decrease/(increase) in trade and other receivables	**13,798**	(130,187)
Decrease in receivables under services concession arrangements	**8,643**	6,795
Decrease/(increase) in amounts due from customers for contract works	**8,481**	(565)
(Decrease)/increase in trade and other payables	**(63,151)**	93,566
Increase in amounts due to customers for contract works	**43,601**	53,759
Cash generated from operations	**174,929**	98,424
Income taxes paid	**(39,053)**	(45,301)
Net cash generated from operating activities	**135,876**	53,123

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(156,827)**	(81,785)
Deposits paid for acquisition of property, plant and equipment	**(30,583)**	(55,327)
Payments for acquisition of lease payment	**(85,093)**	–
Proceeds from disposal of property, plant and equipment and prepaid lease payment	**4,420**	3,199
Acquisition of operating concessions	**(24,663)**	(59,604)
Acquisition of other intangible assets	**(32)**	(19,794)
Purchase of available-for-sale investments	**(26,171)**	(249,889)
Proceeds from disposal of available-for-sale investments	**88,103**	66,459
Purchase of financial assets at fair value through profit or loss	**(122,566)**	(144,604)
Proceeds from disposal of financial assets at fair value through profit or loss	**168,124**	38,108
Acquisition of subsidiaries, net of cash acquired	**(77,366)**	(13,844)
Disposal of subsidiaries, net of cash disposed of	**–**	88,304
Deposits paid for acquisition of subsidiaries	**(30,610)**	(31,070)
Interest received	**19,873**	9,381
Loan to a third party	**–**	(47,748)
Repayment of loan from third parties	**52,377**	5,453
Government grants received	**19,447**	5,298
Net cash used in investing activities	**(201,567)**	(487,463)
Financing activities		
Proceeds from new bank borrowings and other loans	**477,781**	350,923
Repayment of bank borrowings and other loans	**(392,112)**	(74,970)
Advanced from/(Repayments to) non-controlling shareholders of a subsidiary	**4,905**	(31,629)
Capital contribution from non-controlling shareholders	**1,500**	25,383
Proceed from obligations of finance leases	**37,321**	–
Repayments of finance leases	**(3,675)**	–
Advance from/(repayments to) associates	**39**	(1,352)
Proceeds from issue of new shares	**–**	499,704
Repurchase of own shares	**–**	(2,684)
Redemption of convertible bonds	**–**	(104,500)
Interest paid	**(34,456)**	(25,941)
Net cash generated from financing activities	**91,303**	634,934

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Net increase in cash and cash equivalents	**25,612**	200,594
Cash and cash equivalents at 1 January	**476,873**	324,066
Effect of foreign exchange rates changes	**(43,306)**	(47,787)
Cash and cash equivalents at 31 December	**459,179**	476,873
Analysis of the balance of cash and cash equivalents		
Cash held by financial institutions	**341**	923
Bank balances and cash	**489,896**	475,950
Overdraft held at financial institutions	**(31,058)**	–
Cash and cash equivalents at 31 December	**459,179**	476,873

The notes on pages 112 to 232 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

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

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

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

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The Group has applied the amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations for the first time in the current year. The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (for example, HKAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group did not have any such transactions in the current year.

Amendments to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied the amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation for the first time in the current year. The amendments to HKAS 16 Property, Plant and Equipment prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the amendments also clarify that in choosing an appropriate amortisation method an entity could determine the predominant limiting factor that is inherent in the intangible asset.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The Group has applied the amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants for the first time in the current year. The amendments to HKAS 16 Property, Plant and Equipment and HKAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

Annual Improvements to HKFRSs 2012-2014 Cycle

The Group has applied the Annual Improvements to HKFRSs 2012-2014 Cycle for the first time in the current year which include a number of amendments to various HKFRSs as summarised below.

The amendments to HKFRS 5 clarify when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract constitutes continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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, 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 are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associates.

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

– investment property (note 20)

– available-for-sale investments (note 22)

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

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 amounts of assets and liabilities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amounts of the identifiable assets acquired and liabilities assumed as at acquisition date 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 relevant subsidiary'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates *(Continued)*

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.

(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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets" below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets *(Continued)*

Consideration given by the grantor (Continued)

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

(k) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amotisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the period the intangible asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill) *(Continued)*

Operating concessions

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortization and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions grants to the Group of 25 to 30 years.

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 21 and 23), are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(p)).

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

(l) Leasehold land and buildings for own use

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model when the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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(aa).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Investment and 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.

Loans and receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in "Revenue" or "Interest income", as appropriate, in the statement of profit or loss. The loss arising from impairment is recognized as other operating expenses in the statement of profit or loss.

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

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

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.

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 loan 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– 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).

– 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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(ee)(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.

(v) Derivative financial instruments

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

(w) Equity-settled share-based payment transactions

(i) Share options granted to employees

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

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

(ii) Share options granted to eligible persons

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Other employee benefits

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

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

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

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

(ii) Termination benefits

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

(y) Government grants

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(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)*

(aa) Revenue recognition

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

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

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

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

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

Water supply 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue recognition *(Continued)*

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.

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.

(bb) Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Foreign currencies *(Continued)*

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).

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.

(cc) Leased assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Leased assets *(Continued)*

(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.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(p). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(dd) Borrowing costs

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

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

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

(ee) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Financial guarantees issued (Continued)

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.

(ff) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ff) 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.

(gg) 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.

(hh) Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2016, the carrying amount of available-for-sale investments was approximately HK$90,437,000 (2015: HK$181,424,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

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

As at 31 December 2016, the carrying amount of plant and equipment was approximately HK$454,530,000 (2015: the carrying amount of plant and equipment was approximately HK$277,405,000 (net of accumulated impairment loss of approximately HK$1,622,000)). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

As at 31 December 2016, the carrying amount of prepaid lease payments was approximately HK$105,675,000 (net of accumulated impairment loss of approximately HK$ Nil) (2015: the carrying amount of prepaid lease payments was approximately HK$23,242,000 (net of accumulated impairment loss of approximately HK$ 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.

(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 2016, the carrying amount of trade receivables was approximately HK$61,509,000 (2015: HK$35,679,000) (net of accumulated impairment losses of approximately HK$2,347,000 (2015: HK$2,331,000)).

(v) Impairment loss recognised in respect of other receivables and loan 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 2016, the carrying amounts of other receivables and loan receivables are HK$95,325,000 (2015: HK$72,731,000) and HK$3,550,000 (2015: HK$57,298,000) respectively (net of accumulated impairment losses of HK$4,858,000 (2015: HK$10,466,000) and HK$54,844,000 (2015: HK$54,844,000) respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

(vi) Impairment loss of operating concession 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 2016, the carrying amounts of operating concession are HK$483,794,000 (2015: HK$503,825,000). As at 31 December 2016, the carrying amounts of exclusive rights are HK$155,459,000 (2015: HK$152,073,000).

(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 2016, the carrying amount of goodwill was HK$34,362,000 (2015: HK$21,020,000) (net of accumulated impairment losses of HK$223,265,000 (2015: HK$238,193,000)). Details of impairment testing on goodwill are set out in note 21.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

(x) Estimation of water consumption

Determination of the revenue from the distribution and sale of water may include an estimation of the water supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

The actual consumption could deviate from those estimates.

(xi) Classification between operating concessions and receivables under service concession arrangements

As explained in note 3(j) to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$483,794,000 (2015: HK$503,825,000) and HK$36,615,000 (2015: HK$45,258,000), respectively, further details of which are set out in note 18 to the financial statements.

(xii) Fair value estimates on acquisition of subsidiaries

The initial accounting on the acquisition of subsidiaries involves identifying and determining the fair value of the consideration and the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entities will impact the carrying amounts of goodwill and the identifiable assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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, such as bank borrowings, other loans, amount due to non-controlling shareholders of subsidiaries, loan from associates, obligation under finance leases and overdraft held at financial institutions, 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 2016 and 2015 were as follows:

	2016	2015
	HK$'000	*HK$'000*
Overdraft held at financial institutions	**31,058**	–
Bank borrowings	**122,974**	132,859
Other loans	**360,212**	283,609
Amounts due to non-controlling shareholders of subsidiaries	**32,808**	27,903
Loans from associates	**2,927**	3,130
Obligations under finance leases	**30,764**	–
Total debt	**580,743**	447,501
Less: Cash held by financial institutions	**(341)**	(923)
Bank balances and cash	**(489,896)**	(475,950)
Cash and cash equivalents	**(490,237)**	(476,873)
Net debt	**90,506**	(29,372)
Equity attributable to owners of the Company	**1,263,852**	1,310,827
Gearing ratio	**7.16%**	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.

(v) As at 31 December 2016, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$3,550,000 (2015: HK$57,298,000) (net of accumulated impairment losses of HK$54,844,000 (2015: HK$54,844,000)), which were due from one (2015: two) unrelated parties.

(vi) As at 31 December 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(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.

2016

	On demand	Within 1 years	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities							
Trade and other payables	22,621	182,319	–	–	–	204,940	204,940
Obligations under finance lease	–	12,235	12,235	9,176	–	33,646	30,764
Bank borrowings and other loans	17,081	347,720	27,996	53,448	66,804	513,049	483,186
Amounts due to non-controlling shareholders	32,808	–	–	–	–	32,808	32,808
Loans from associates	–	3,054	–	–	–	3,054	2,927
	72,510	545,328	40,231	62,624	66,804	787,497	754,625

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(b) Liquidity risk *(Continued)*

2015

	On demand *HK$'000*	Within 1 years *HK$'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

(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$'000)			
	2016		2015	
	USD	***RMB***	*USD*	*RMB*
Assets	**326**	**7,466**	36	4,309

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit/(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.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses**	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after tax and accumulated losses
		HK$'000		*HK$'000*
Renminbi	**5%**	**312**	5%	180
	(5%)	**(312)**	(5%)	(180)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit/(loss) 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 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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, obligations under finance leases, amounts due to non-controlling shareholders of subsidiaries and loans from associates (see notes 30, 31, 32, 33 and 34 for details) for the years ended 31 December 2016 and 2015. 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:

	2016		2015	
	Effective interest rate %	***HK$'000***	Effective interest rate %	*HK$'000*
Fixed rate borrowings:				
Bank borrowings	**4.35%-6.30%**	**115,159**	5.94%-6.30%	56,462
Other loans	**0%-5.15%**	**350,164**	0%-20%	272,865
Obligations under finance leases	**6.46%**	**30,764**	0%	–
Amounts due to non-controlling shareholders of subsidiaries	**0%**	**32,808**	0%	27,903
Loans from associates	**4.35%**	**2,927**	4.35%-5.60%	3,130
		531,822		360,360
Variable rate borrowings:				
Bank borrowings	**5.39%-6.80%**	**7,815**	4.90%-6.80%	76,397
Other loans	**4.91%-5%**	**10,048**	4.91%-6.19%	10,744
		17,863		87,141
Total borrowings		**549,685**		447,501
Fixed rate borrowings as a percentage of total borrowings		**97%**		81%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2016, it is estimated that a general increase/decrease of 50 basis points (2015: 50 basis points) with all other variables held constant, would have decreased/increased the Group's profit for the year (2015: increased/decreased the Group's loss for the year) and increased/decreased the accumulated losses by approximately HK$67,000 (2015: HK$327,000). 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 2015.

(iii) Equity price risk

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

Sensitivity analysis

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

<u>Available-for-sale investments</u>

At 31 December 2016, if the prices of the respective available-for-sale investments had been 10% (2015: 10%) higher/lower, the investment revaluation reserve would increase/decrease by HK$9,044,000 (2015: HK$18,143,000), as a result of the changes in fair value of available-for-sale investments.

<u>Financial assets at fair value through profit or loss</u>

At 31 December 2016, if the prices of the respective financial assets at fair value through profit or loss had been 10% (2015: 10%) higher/lower, profit for the year would increase/decrease by HK$23,281,000 (2015: loss for the year would decrease/increase by HK$22,006,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

(i) Financial instruments carried at fair value

Fair value hierarchy

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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)

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Assets				
Available-for-sale investments				
– Listed	**90,437**	**–**	**–**	**90,437**
Financial assets at fair value through profit or loss				
– Listed	**98,685**	**–**	**–**	**98,685**
– Unlisted	**–**	**–**	**134,123**	**134,123**

	2015			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Assets				
Available-for-sale investments				
– Listed	146,409	–	–	146,409
– Unlisted	–	–	35,015	35,015
Financial assets at fair value through profit or loss				
– Listed	105,133	–	–	105,133
– Unlisted	–	–	114,928	114,928

During the years ended 31 December 2016 and 2015, there were no significant transfers between instruments levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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	Inputs value
Available-for-sale investments			
Unlisted investment funds	Net asset value	n/a	n/a
Financial assets at fair value through profit or loss			
Unlisted investment fund	Net asset value	n/a	n/a

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

As for the change in Level 3 instruments for the years ended 31 December 2016 and 2015, please refer to note 22.

(ii) Financial instruments carried at other than fair value

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 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. REVENUE

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

	2016	2015
	HK$'000	*HK$'000*
Water supply services	**112,043**	119,061
Sewage treatment services	**44,417**	48,381
Water supply related installation and construction income	**241,813**	235,875
Water supply and sewage treatment infrastructure construction income	**31,166**	58,690
Sale of electricity	**70,690**	29,984
Sale of compressed natural gas	**39,428**	27,529
Service income from collection of landfill gas	**11,089**	9,066
	550,646	528,586

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2016

	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	**429,439**	**121,207**	**550,646**
Reportable segment profit	**126,705**	**16,777**	**143,482**
Unallocated corporate expenses			**(49,053)**
Interest income			**478**
Interest on overdraft held at financial institutions			**(1,139)**
Interest on fixed coupon bonds			**(17,250)**
Net gain on financial assets at fair value through profit or loss			**22,304**
Net gain on disposal of available-for-sale investments			**35,699**
Impairment loss recognised on available-for-sale investment			**(9,704)**
Profit before taxation			**124,817**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2016

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	19,250	145	478	–	19,873
Interest expenses	(2,821)	(2,873)	(18,389)	–	(24,083)
Share of losses of associates	(1,412)	–	–	–	(1,412)
Depreciation of property, plant and equipment	(7,172)	(23,342)	(2,153)	–	(32,667)
Amortisation of:					
– Prepaid lease payments	(973)	–	–	–	(973)
– Concession intangible assets	(23,564)	–	–	–	(23,564)
– Other intangible assets	–	(17,874)	–	–	(17,874)
Loss on disposal of property, plant and equipment and prepaid lease payments	(152)	–	–	–	(152)
Net gain on disposal of available-for-sale investments	–	–	35,699	–	35,699
Impairment loss recognised on:					
– Trade and other receivables	(481)	–	–	–	(481)
– Available-for-sale investments	–	–	(9,704)	–	(9,704)
Reversal of impairment loss recognised on trade and other receivables	70	–	–	–	70
Reportable segment assets	1,038,229	889,804	653,486	171,313	2,752,832
Additions to non-current assets	36,003	210,818	80,475	–	327,296
Reportable segment liabilities	(344,860)	(305,124)	(336,511)	(128,130)	(1,114,625)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

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$'000	Unallocated HK$'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	(19,868)	–	–	–	(19,868)
– 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
Reportable segment assets	1,097,787	613,432	438,770	471,674	2,621,663
Additions to non-current assets	136,472	178,036	1,381	–	315,889
Reportable segment liabilities	(463,085)	(173,298)	(218,693)	(114,028)	(969,104)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, financial assets at fair value through profit or loss and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of overdraft held at financial institutions and other unallocated corporate liabilities.

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

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2015: 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, interest on overdraft held at financial institutions, 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.

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 2016 and 2015, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. OTHER OPERATING INCOME AND EXPENSES

	2016	2015
	HK$'000	*HK$'000*
Interest income on:		
– bank deposits	**3,409**	1,338
– loans *(notes (a))*	**16,464**	6,548
Total interest income on financial assets not at fair value through profit or loss	**19,873**	7,886
Fund dividend received	**–**	10,435
Government grants *(note 36)*	**10,949**	6,224
Consultancy fee income	**9,651**	12,543
Handling charges	**2,323**	1,718
Cleaning income	**333**	1,568
Repair services income	**1,402**	3,366
Gross rentals from investment property	**1,458**	1,370
Late surcharge income	**–**	630
(Loss)/gain on disposal of property, plant and equipment and prepaid lease payments, net	**(152)**	225
Revenue from sales of properties	**25,220**	–
Other operating expenses for each of properties	**(25,464)**	–
Loss on sales of properties, net	**(244)**	–
VAT refund	**6,488**	5,279
Rental income from leasing equipment	**6,544**	–
Gain on investment projects	**8,477**	–
Gain on bargain purchase arising from acquisition of a subsidiary	**1,808**	–
Others	**7,656**	1,029
	76,566	52,273

Note:

(a) During 2016, the Group earned interest income of HK$16.5 million (2015: HK$6.5 million) on loans to two (2015: two) unrelated parties (note 26), which bears fixed interest at approximately 36% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on:		
– convertible bonds	**–**	1,027
– bank borrowings	**5,354**	6,921
– other loans	**22,717**	15,619
– overdraft held at financial institutions	**1,139**	–
Finance charges on obligations under finance leases	**742**	–
Total borrowing cost	**29,952**	23,567
Less: interest capitalised included in construction in progress	**(5,869)**	(14,725)
	24,083	8,842

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$5,869,000 (2015: HK$14,725,000) at the capitalisation rate of 6.58% (2015: 6.98%) per annum.

11. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Over provision in respect of prior years	**–**	(409)
Current tax – PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**38,935**	36,735
– Over provision in respect of prior years	**(1,390)**	(2,081)
Deferred tax *(note 37)*	**2,370**	(14,305)
	39,915	19,940

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for 2016 (2015: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. INCOME TAX EXPENSE *(Continued)*

Foshan City Gaoming Huaxin Sewage Treatment Company Ltd ("Gaoming Huaxin"), Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang"), Hunan Huiming Environmental Technology Limited ("Huiming Technology"), Changsha Huiming Recycling Resources Technology Limited ("Changsha Huiming"), Shenzhen City New China Water Environmental Technology Limited ("Shenzhen New China Water) (formerly known as Shenzhen City Greenspring Recycling Resources Technology Limited), Qingyuan City Greenspring Environmental Technology Limited ("Qingyuan City Greenspring"), and Wuzhou City China Water New Renewable Resources Company Limited ("Wuzhou New China Water") 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, Huiming Technology, Changsha Huiming, Shenzhen New China Water, Qingyuan City Greenspring, and Wuzhou New China Water were 2011, 2012, 2012, 2015, 2016, 2016 and 2016 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.

– Changsha Huiming is exempted from PRC income tax from 1 January 2015 to 31 December 2017 and are entitled to a 50% exemption of income tax from 1 January 2018 to 31 December 2020.

– Shenzhen New China Water, Qingyuan City Greenspring and Wuzhou New China Water are exempted from PRC income tax from 1 January 2016 to 31 December 2018 and are entitled to a 50% exemption of income tax from 1 January 2019 to 31 December 2021.

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.

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11. INCOME TAX EXPENSE *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**124,817**	(50,658)
Tax at the domestic income tax rate of 25% (2015: 25%)	**31,205**	(12,665)
Tax effect of share of results of associates	**(117)**	(1,833)
Tax effect of expenses not deductible for tax purposes	**18,530**	15,207
Tax effect of income not taxable for tax purposes	**(21,293)**	(4,131)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**763**	15,532
Tax effect of tax losses and deductible temporary differences not recognised	**8,737**	8,397
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries	**3,480**	1,923
Over provision in respect of prior years	**(1,390)**	(2,490)
	39,915	19,940

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For the year ended 31 December 2016

12. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived at after charging:

	2016	2015
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**126,942**	94,464
– Retirement benefits scheme contributions	**14,880**	13,628
Total staff costs	**141,822**	108,092
Amortisation of:		
– Prepaid lease payments	**973**	1,443
– Concession intangible assets (included in cost of sales)	**23,564**	19,868
– Other intangible assets	**17,874**	10,498
Depreciation of property, plant and equipment	**32,667**	14,691
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payment	**152**	(225)
Auditors' remuneration		
– audit services	**2,081**	1,190
– other services	**260**	260
Minimum lease payments under operating leases	**6,221**	6,710
Cost of inventories sold	**128,826**	115,567
Gross rental income from investment properties less direct outgoings of HK$117,000 (2015: HK$115,000)	**1,341**	1,255
Loss on sales of properties, net	**244**	–

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, all (2015: 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 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

15. EARNINGS/(LOSS) PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Profit/(loss) attributable to the owners of the Company, used in the basic and diluted earnings/(loss) per share	**31,263**	(97,497)

	No. of shares	No. of shares
	'000	*'000*
Weighted average number of ordinary shares – basic and diluted	**1,596,540**	1,486,921
Earnings/(loss)per share (HK cents):		
Basic	**1.96**	(6.56)
Diluted	**1.96**	(6.56)

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.

For the year ended 31 December 2016, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

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For the year ended 31 December 2016

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 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 and 1 January 2016	112,480	98,671	12,522	26,826	61,294	311,793
Additions	4,717	150,393	2,222	1,806	58,370	217,508
Additions – interest capitalised	–	–	–	–	3,820	3,820
Acquisition through business combination	8,873	41,444	8	481	–	50,806
Transfer to investment properties	(27,632)	–	–	–	–	(27,632)
Transfer	13,779	75,147	1,392	58	(90,376)	–
Disposals	(451)	(4,150)	–	(4,542)	(7)	(9,150)
Exchange realignment	(13,651)	(16,251)	(5,981)	(1,267)	–	(37,150)
At 31 December 2016	**98,115**	**345,254**	**10,163**	**23,362**	**33,101**	**509,995**
Accumulated depreciation and impairment:						
At 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 and 1 January 2016	2,968	15,674	4,376	11,370	–	34,388
Provided for the year	6,110	20,032	1,021	3,509	1,995	32,667
Transfer to investment properties	(656)	–	–	–	–	(656)
Eliminated on disposal	(122)	(1,606)	–	(2,850)	–	(4,578)
Exchange realignment	(766)	(4,572)	(286)	(732)	–	(6,356)
At 31 December 2016	**7,534**	**29,528**	**5,111**	**11,297**	**1,995**	**55,465**
Carrying values						
At 31 December 2016	**90,581**	**315,726**	**5,052**	**12,065**	**31,106**	**454,530**
At 31 December 2015	109,512	82,997	8,146	15,456	61,294	277,405

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For the year ended 31 December 2016

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

As at 31 December 2015 and 2016, all of the property usage permits of buildings have been granted by relevant government authorities.

As at 31 December 2016, none (2015: HK$ none) of the Group's buildings was pledged to secure the bank and other borrowings granted to the Group.

During the year, additions to property, plant and equipment financed by new finance lease were HK$33,731,000 (RMB30,213,000) (2015: Nil). At the end of the reporting period, the carrying amount of property, plant and equipment held under finance lease was HK$33,197,000 (RMB29,735,000) (2015: Nil).

In 2015, 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 was made to the carrying amounts of the property, plant and equipment of Gaoming Huaxin for the year ended 31 December 2015.

In 2016, 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, to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amount of the property, plant and equipment for the year ended 31 December 2016..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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:

	2016	2015
	HK$'000	*HK$'000*
Carrying values		
At 1 January	**23,242**	26,163
Additions	**85,093**	–
Amortisation for the year	**(973)**	(1,443)
Exchange realignment	**(1,687)**	(1,478)
At 31 December	**105,675**	23,242
Current assets	**1,645**	1,053
Non-current assets	**104,030**	22,189
	105,675	23,242

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 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. CONCESSION INTANGIBLE ASSETS

As further explained in the accounting policy for "Service concession arrangements" set out in note 3(j) to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

Operating concessions

	2016 HK$'000	2015 HK$'000
Cost		
At 1 January	**610,570**	580,027
Additions	**24,663**	59,604
Additions – interest capitalised	**2,049**	4,150
Exchange realignment	**(32,957)**	(33,211)
At 31 December	**604,325**	610,570
Accumulated amortisation and Impairment		
At 1 January	**106,745**	88,235
Provided for the year	**23,564**	19,868
Impairment	**–**	6,384
Exchange realignment	**(9,778)**	(7,742)
	120,531	106,745
Carrying values		
At 31 December	**483,794**	503,825

Receivables under service concession arrangements

	2016 HK$'000	2015 HK$'000
Receivables under service concession arrangements	**36,615**	45,258
Impairment	**–**	–
	36,615	45,258
Portion classified as current assets	**(5,122)**	(6,109)
Non-current portion	**31,493**	39,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. CONCESSION INTANGIBLE ASSETS *(Continued)*

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.

For the year ended 31 December 2016, the Group has recognised service concession construction revenue of HK$31,166,000 (2015: HK$58,690,000) and profit of HK$2,964,000 (2015: HK$3,775,000) 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 13.1% – 13.9%. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. OTHER NON-CURRENT ASSETS

	2016	2015
	HK$'000	*HK$'000*
At fair value		
At 1 January	**20,711**	–
Reclassified as other non-current assets	**–**	21,563
Exchange realignment	**(1,342)**	(852)
At 31 December	**19,369**	20,711

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, which Yingtan Water Supply will receive compensation including transfer of certain construction floor areas of the new premises (the "New Premises").

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 fair value of the New Premises, estimated at HK$21,563,000, was recognized as deemed consideration during the year ended 2015.

The carrying amount of the New Premises, classified as other non-current assets, at 31 December 2016 was HK$19,369,000 (2015: HK$20,711,000).

As at 31 December 2016, the New Premises are still under construction.

20. INVESTMENT PROPERTY

	2016	2015
	HK$'000	*HK$'000*
At fair value		
At 1 January	**–**	21,457
Reclassified as investment properties during the year	**26,976**	–
Fair value recognised in revaluation reserve	**4,785**	–
Fair value gain recognised for the year	**1,613**	410
Reclassified as other non-current assets	**–**	(21,563)
Exchange realignment	**(864)**	(304)
At 31 December	**32,510**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INVESTMENT PROPERTY *(Continued)*

The fair value of the investment properties has been arrived at on the basis of a valuation carried out as year ended 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.

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
2016	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	32,510	–	–	32,510

During the year ended 31 December 2016, 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 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. INVESTMENT PROPERTY *(Continued)*

Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range 2016	Weighted average 2016
Investment properties				
Commercial – PRC	Income approach (term and reversionary method)	Term and reversionary yield	5% to 9%	8.67%

The fair value of investment properties located in the PRC as at 31 December 2016 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:

	2016 **HK$'000**	2015 HK$'000
Investment properties – Commercial – PRC		
At 1 January	**–**	21,457
Reclassified as investment properties during the year	**26,976**	–
Fair value recognised in revaluation reserve	**4,785**	–
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**1,613**	410
Transfer upon resumption of properties	**–**	(21,563)
Exchange realignment	**(864)**	(304)
At 31 December	**32,510**	–

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

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21. OTHER INTANGIBLE ASSETS

	Goodwill HK$'000	Exclusive rights of collection and utilisation of landfill gas HK$'000	Total HK$'000
Cost			
At 1 January 2015	273,394	154,811	428,205
Acquisition of exclusive rights *(note (i))*	–	19,794	19,794
Acquisition of subsidiaries *(note 38(f))*	–	1,768	1,768
Exchange realignment	(14,181)	(9,092)	(23,273)
At 31 December 2015 and 1 January 2016	**259,213**	**167,281**	**426,494**
Acquisition of exclusive rights	**–**	**32**	**32**
Acquisition of a subsidiary *(note 38)*	**15,626**	**32,199**	**47,825**
Exchange realignment	**(17,212)**	**(12,769)**	**(29,981)**
At 31 December 2016	**257,627**	**186,743**	**444,370**
Accumulated amortization and impairment			
At 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 and 1 January 2016	**238,193**	**15,208**	**253,401**
Amortisation	**–**	**17,874**	**17,874**
Exchange realignment	**(14,928)**	**(1,798)**	**(16,726)**
At 31 December 2016	**223,265**	**31,284**	**254,549**
Carrying values			
At 31 December 2016	**34,362**	**155,459**	**189,821**
At 31 December 2015	21,020	152,073	173,093

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21. OTHER INTANGIBLE ASSETS *(Continued)*

(i) 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.

(ii) 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, 2016 was HK$17,874,000 (2015: HK$10,498,000), of which HK$16,984,000 (2015: HK$9,551,000) and HK$890,000 (2015: HK$947,000) 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 eleven (2015: seven) individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2016 and 2015 allocated to these units are as follows:

	2016	2015
	HK$'000	*HK$'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")	**–**	–
Collection and utilization of landfill gas		
Shenzhen City Li Sai Industrial Development Limited	**11,575**	12,377
Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang")	**8,083**	8,643
Hunan Huiming Environmental Technology Limited ("Huiming Technology")	**–**	–
Datang Huayin Chenzhou Environmental Power Company Limited ("Chenzhou Environmental")	**6,324**	–
Datang Huayin Heng Yang Environmental Power Company Limited ("Heng Yang Environmental")	**4,654**	–
Baoji City Electric Power Development Co., Limited (Baoji)	**1,349**	–
Chongqing Camda New Energy Equipment Company Limited ("Chongqing Camda")	**2,377**	–
	34,362	21,020

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21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill *(Continued)*

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$223,265,000 (2015: HK$238,193,000) as at 31 December 2016 in relation to goodwill arising on acquisition of the subsidiaries.

In 2016, the recoverable amount of the CGUs is higher than the carrying amount, and no impairment for the year 2016.

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 3% – 4% (2015: 2% – 4%) 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 13.9% (2015: 13.7%). 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 was made on goodwill during the year ended 31 December 2015. The recoverable amount of this CGU at 31 December 2016 was HK$39,006,000 (RMB34,939,000) (2015: HK$42,777,000 (RMB35,836,000)).

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 3% – 4% (2015: 0% – 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 17.5% – 24.1% (2015: 16.2% – 19.8%). 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 and HK$874,000 respectively. During the year ended 31 December 2016, the recoverable amount of this CGU at 31 December 2016 was HK$24,252,000 (RMB21,723,000) (2015: HK$33,541,000 (RMB28,098,000)).

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22. INVESTMENTS

	Available-for-sale investments		Financial assets at fair value through profit or loss – held for trading	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
– Equity securities listed in Hong Kong	**90,437**	146,409	**98,685**	105,133
– Unlisted investment funds	**–**	35,015	**134,123**	114,928
	90,437	181,424	**232,808**	220,061

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 2016, 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$9,704,000 (2015: HK$58,537,000) were recognised in profit or loss in accordance with the policy set out in note 3(p)(i).

The unlisted investment fund (the "Fund") 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. INVESTMENTS *(Continued)*

The movement of the unlisted investment funds, classified as available-for-sale investments, is set out below:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**35,015**	–
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)
Disposal	**(35,015)**	–
At 31 December	**–**	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 investment funds, classified as financial assets at fair value through profit or loss, is set out below:

	2016	2015
	HK$'000	*HK$'000*
Beginning of the year	**114,928**	179,267
Subscription of funds	**82,400**	–
Disposals	**(87,549)**	(42,361)
Fund dividend received in the form of additional shares in the funds	**–**	1,669
Fair value gain/(loss) (included in net gain/(loss) on financial assets at fair value through profit or loss)	**24,344**	(23,647)
End of the year	**134,123**	114,928
Total gain/(loss) for the year included in profit or loss for assets held at the end of the reporting period (included in net gain/(loss) on financial assets at fair value through profit or loss)	**51,723**	(30,008)

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23. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2016. 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
Jiangxi Dekang Purified Water Company Limited*	PRC	RMB5,000,000	–	100%	Exploitation, production and sale of purified and drinking system	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

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
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
Huizhou Swan Dadi Property Development Company Limited*	PRC	RMB10,000,000	–	100%	Property development	Domestic enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	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 Group Co., Ltd* (Formerly known as 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

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For the year ended 31 December 2016

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Jiangxi Hualei Construction Co., Limited* ("Hualei")	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 ii)*	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$70,000,000	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise
Changsha Huiming Recycling Resources Technology Limited* ("Changsha Huiming")	PRC	RMB50,000,000	–	91%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai")	PRC	RMB50,000,000	–	88%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City New China Water Environmental Technology Limited* (Formerly known as Shenzhen City Greenspring Recycling Resources Technology Limited*) ("Shenzhen New China Water")	PRC	RMB20,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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For the year ended 31 December 2016

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Qingyuan City Greenspring Environmental Technology Limited* ("Qingyuan City Greenspring")	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Huiming Environmental Technology Limited* ("Huiming Technology")	PRC	RMB18,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Feng Ming Energy Technology Limited* ("Hunan Feng Ming") *(note 38(f))*	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 i)*	PRC	RMB15,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") *(note 38(b))*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") *(note 38(c))*	PRC	RMB4,100,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Baoji City Electric Power Development Co., Ltd* (Baoji") *(note 38(a))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") *(note 38(d))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") *(note 38(e))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
New China Water (Nanjing) Carbon Company Limited*	PRC	RMB30,000,000	–	100%	Development of carbonic technology	Domestic enterprise
New China Water (Nanjing) Energy Company Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Hexian) Recycling Resources Technology Limited*	PRC	HK$30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Yichun City New China Water Energy Technology Limited*	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
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

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
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
Hong Kong Glass Resources Limited	Hong Kong	HK$100	–	100%	Glass Recycling	Private limited liability company
Hong Kong Glass Reborn Limited	Hong Kong	HK$5,000,000	–	70%	Glass Recycling	Private limited liability company
South Top Investment Ltd.	Hong Kong	HK$1	100%	–	Provision of administrative services	Private limited liability company
Neutral Crown Holdings Limited	BVI	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company

* The English names are for identification purpose only.

Notes:

(i) 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.

(ii) 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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.

None of the subsidiaries has issued any debt securities subsisting at the end of 2016 and 2015 or at any time during the years ended 31 December 2016 and 2015.

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 Group		Yichun Water Group	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%
Current assets	**335,214**	389,308	**180,378**	177,568
Non-current assets	**286,345**	295,192	**259,093**	298,753
Current liabilities	**(219,475)**	(262,511)	**(145,397)**	(153,745)
Non-current liabilities	**(69,517)**	(135,403)	**(24,370)**	(24,874)
Net assets	**332,567**	286,586	**269,704**	297,702
Carrying amount of NCI	**162,958**	140,427	**132,155**	145,874
Revenue	**164,379**	158,382	**210,934**	239,025
Profit for the year	**66,073**	45,260	**27,428**	11,531
Total comprehensive income	**87,218**	29,826	**34,064**	11,531
Profit allocated to NCI	**32,376**	22,177	**13,440**	5,650
Dividend paid by the subsidiaries	**–**	–	**–**	–
Dividend paid to NCI	**–**	–	**–**	–
Cash flows from operating activities	**952,974**	898,313	**206,151**	87,891
Cash flows used in investing activities	**(29,388)**	(223,030)	**(6,767)**	(23,262)
Cash flows used in financing activities	**(868,887)**	(798,058)	**(212,679)**	(7,756)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. INTERESTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Share of net assets	**71,534**	74,660

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$Nil in 2016 (2015: HK$33,540,000) 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 two-year period, and pre-tax discount rate of 13.7% (2015: 14.5%). Cash flows beyond the two-year period have been extrapolated using a steady 2% (2015: 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 2016 was HK$103,474,000 (RMB92,685,000).

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		
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. 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 2016 and 2015, 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 2016 and 2015, 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").

Aggregate information of associates that are not individually material:

	2016	2015
	HK$'000	*HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**71,534**	74,660
Aggregate amounts of the Group's share of those associates		
Loss/(profit) for the year	**(1,412)**	7,332
Other comprehensive loss	**(1,714)**	(5,775)
Total comprehensive (loss)/income	**(3,126)**	1,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Properties held for sale	**151,642**	–
Properties under development for sale	**–**	173,637
Raw materials	**32,932**	30,047
Finished goods	**15**	699
	184,589	204,383

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

	2016	2015
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**111,691**	135,173

The analysis of carrying value of inventories for properties under development is as follows:

	2016	2015
	HK$'000	*HK$'000*
In mainland China		
– Land use rights	**–**	87,737
– Other development costs	**–**	67,207
– Interest capitalised	**–**	18,693
	–	173,637
Including:		
Properties expected to be completed within one year	**–**	173,637

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 complete in 2016.

* The English names are for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**63,856**	38,010
Less: Allowance for doubtful debts	**(2,347)**	(2,331)
	61,509	35,679
Other receivables *(note a)*	**100,183**	83,197
Less: Allowance for doubtful debts	**(4,858)**	(10,466)
	95,325	72,731
Loan receivables *(note b)*	**58,394**	112,142
Less: Allowance for doubtful debts	**(54,844)**	(54,844)
	3,550	57,298
Deposits and prepayments *(note c)*	**125,853**	139,898
	286,237	305,606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. TRADE AND OTHER RECEIVABLES *(Continued)*

a) Other receivables represented advances to staff and unrelated parties, which were unsecured, interest-free and repayable on demand. Amount at 31 December 2016 mainly included (i) a receivable of HK$40.9 million (2015: HK$42.4 million) from the disposal of investments in unlisted investment funds (classified as available-for-sale investments) (ii) a receivable of HK$ Nil (2015: HK$14.0 million) from the disposal of investments in a property development company in China (classified as available-for-sale investments).

(b) Loan receivables

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 loan receivables as at 31 December 2016 were loans to one (2015: two) unrelated parties of HK$3,550,000 (2015: HK$57,298,000), which bear fixed interest rate at approximately 36% per annum (note 9(a)). Loan of HK$3,550,000 was unsecured. This party has 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 for purchase of materials for trading purposes. During the year 2016, the purchase was cancelled and the deposit was fully refunded.

Amount at 31 December 2016 included i) a payment of HK$15 million for the subscription of investment fund and HK$0.45 million for the expenses of the subscription. The subscription of fund was completed on 3 January 2017, ii) a deposit paid of HK$23 million (RMB21 million) for the acquisition of 80% equity interest of a subsidiary. The total consideration for the acquisition is RMB70 million (approximately HKD78 million). The acquisition was terminated in December 2016 and the deposit was refunded in March 2017, iii) a subsidiary of the Company entered into a co-operation agreement with independent third party to bid a government project of sewage treatment infrastructure construction, The deposit of HK$27 million (RMB24 million) was paid. At 20 December 2016, due to the delay of the government project, the subsidiary of the Company and the independent third party agreed to terminate the co-operation agreement, and the deposit was refunded in March 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. 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:

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**56,926**	33,164
91 to 180 days	**2,530**	401
181 to 365 days	**121**	–
Over 1 year	**1,932**	2,114
	61,509	35,679

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**59,456**	33,565
Past due but not impaired		
Within 90 days	**–**	–
91 to 180 days	**121**	–
181 to 365 days	**717**	1,508
Over 1 year	**1,215**	606
	61,509	35,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

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)).

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

	2016 ***HK$'000***	2015 *HK$'000*
At 1 January	**2,331**	5,659
Impairment loss recognised	**198**	155
Reversal of impairment loss	**(27)**	(359)
Uncollectible amounts written off	**–**	(2,949)
Exchange realignment	**(155)**	(175)
At 31 December	**2,347**	2,331

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$2,347,000 (2015: HK$2,331,000) which are long outstanding.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	2016 HK$'000	2015 HK$'000
At 1 January	**10,466**	4,265
Acquisition of subsidiaries	**726**	–
Impairment loss recognised	**283**	6,367
Uncollectible amounts written off	**(6,450)**	(93)
Reversal of impairment loss	**(43)**	–
Exchange realignment	**(124)**	(73)
At 31 December	**4,858**	10,466

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$4,858,000 (2015: HK$10,466,000) which are long outstanding. The management considered the recovery of certain other receivables HK$6,450,000 (2015: HK$93,000) is remote, and the amount considered irrecoverable and written off against other receivables. Other receivables of HK$95,325,000 (2015: HK$72,731,000) 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.

Loan receivables

Impairment losses in respect of loan 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 loan receivables directly (note 3(p)).

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

	2016 HK$'000	2015 HK$'000
At 31 December	**54,844**	54,844

Included in the impairment loss are individually impaired loan receivables with an aggregate balance of HK$54,844,000 (2015: HK$54,844,000) which are long outstanding. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Loans to Top Vision

As at 31 December 2010, loan 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 2015 and 2016, 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.

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 2016 and 2015, the loan receivables from Top Vision of HK$43,598,000 were fully impaired.

At 31 December 2016 and 2015, the long outstanding loan receivables from three other borrowers totalled HK$11,246,000, were fully impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. 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% (2015: 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.

	2016	2015
	HK$'000	*HK$'000*
Cash held by financial institutions	**341**	923
Cash at bank and on hand	**489,896**	475,950
Overdraft held at financial institutions	**(31,058)**	–
Cash and cash equivalents in the consolidated cash flow statement	**459,179**	476,873

The overdrafts are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the financial institutions should be entitled, without notice to the Group, to close the account and/or dispose of any or all securities held for or on behalf of the Group to settle all outstanding amounts owing to financial institutions (note 22). Total amount HK$146,708,000 was held by the financial institutions.

28. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**30,979**	25,299
Receipt in advance	**30,099**	96,355
Construction payables	**71,163**	65,002
Interest payables	**11,139**	11,943
Consideration payable	**25,106**	3,033
Forward sales deposits received	**13,708**	22,505
Other tax payables	**7,508**	6,853
Accrued expenses	**16,099**	19,771
Guarantee deposits from a subcontractor	**11,164**	11,937
Sewage treatment fees received on behalf of certain government authorities	**12,373**	22,264
Other payables	**26,917**	21,080
	256,255	306,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2016 HK$'000	2015 HK$'000
Within 30 days	**10,248**	10,226
31 to 90 days	**2,581**	4,654
91 to 180 days	**9,383**	1,198
181 to 365 days	**1,350**	2,065
Over 1 year	**7,417**	7,156
	30,979	25,299

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

29. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	2016 HK$'000	2015 HK$'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits	**110,231**	83,704
Less: progress billings	**(261,030)**	(182,421)
	(150,799)	(98,717)
Analysed for reporting purposes		
Amounts due from contract customers	**4,982**	13,463
Amounts due to contract customers	**(155,781)**	(112,180)
	(150,799)	(98,717)

As at 31 December 2016 and 2015, there were no retentions held by customers for contract work. Advance received from customers for contract work amounted to HK$39,537,000 (2015: HK$83,398,000) was included in trade and other payables (note 28).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. BANK BORROWINGS

At 31 December 2016, the bank borrowings were repayable as follows:

	2016 HK$'000	2015 HK$'000
Within one year or on demand	**48,729**	29,007
More than one year but within two years	**23,801**	21,487
More than two years but within five years	**50,444**	70,428
More than five years	**–**	11,937
	122,974	132,859
Less: Amount due within one year shown under current liabilities	**(48,729)**	(29,007)
Amount due from one year shown under non-current liabilities	**74,245**	103,852

	2016 HK$'000	2015 HK$'000
Secured	**118,509**	123,309
Unsecured	**4,465**	9,550
	122,974	132,859

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

	2016 HK$'000	2015 HK$'000
Fixed-rate loans	**115,159**	56,462
Variable-rate loans	**7,815**	76,397
	122,974	132,859

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. BANK BORROWINGS *(Continued)*

At 31 December 2016, the Group has the following undrawn bank borrowing facilities:

	2016	2015
	HK$'000	*HK$'000*
Variable-rate		
– expiring beyond one year	–	3,581

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

None of the Group's property, plant and equipment were pledged to secure the respective bank borrowings as at 31 December 2015 and 2016.

Notes:

(i) Bank borrowings of approximately RMB3,000,000 (equivalent to HK$3,349,000) (2015: RMB6,000,000 (equivalent to HK$7,162,000)) 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% (2015: 5.4% to 6.8%) per annum.

(ii) Bank borrowings of approximately RMB13,300,000 (equivalent to HK$14,848,000) (2015: RMB15,300,000 (equivalent to HK$18,264,000)) 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% (2015: 5.94%) per annum. As at 31 December 2016, approximately HK$10,383,000 (2015: HK$3,939,000) out of these borrowings has been past due.

(iii) As at 31 December 2015, bank borrowings of approximately RMB50,000,000 (equivalent to HK$59,685,000) is secured by a contractual right to receive the revenue generated by Yingtan Water Supply, a non-wholly owned subsidiary of the Company, and carries variable interest rate ranging from 4.9% to 5.9% per annum and amount settled in 2016.

(iv) Bank borrowings of approximately RMB4,000,000 (equivalent to HK$4,466,000) (2015: RMB8,000,000 (equivalent to HK$9,550,000)) is secured by a corporate guarantee from the Company, and carries variable interest rate ranging around 6.5% (2015: 6.5%) per annum.

(v) Bank borrowings of approximately RMB22,000,000 (equivalent to HK$24,561,000) (2015: RMB32,000,000 (equivalent to HK$38,198,000)) 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.

(vi) Bank borrowings of approximately RMB5,930,000 (equivalent to HK$6,620,000) (2015: Nil) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 4.75%.

(vii) Bank borrowings of approximately RMB10,000,000 (equivalent to HK$11,164,000) (2015: Nil) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 4.75%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. BANK BORROWINGS *(Continued)*

Notes: (Continued)

(viii) Bank borrowings of approximately RMB6,903,000 (equivalent to HK$7,706,000) (2015: Nil) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 4.75%.

(ix) Bank borrowings of approximately RMB45,020,000 (equivalent to HK$50,260,000) (2015: Nil) is secured by a Company's equity interest in Chenzhou Environmental and Heng Yang Environmental, a wholly owned subsidiary of the Company, and carried fixed interest rate ranging at 5.7%.

31. OTHER LOANS

	2016	2015
	HK$'000	*HK$'000*
Other loans comprise of:		
Government loans *(note i)*	**74,943**	90,262
Loans from employees *(note ii)*	**–**	298
Fixed coupon bonds *(note iii)*	**285,269**	193,049
	360,212	283,609
Analysed as:		
Unsecured	**360,212**	283,609

At 31 December 2016, the other loans were repayable as follows:

	2016	2015
	HK$'000	*HK$'000*
Overdue	**6,698**	7,460
On demand or within one year	**288,567**	196,522
More than one year but within two years	**–**	1,194
More than two years but within five years	**–**	–
More than five years	**64,947**	78,433
	360,212	283,609
Less: Amount due within one year shown under current liabilities	**(295,265)**	(203,982)
Amount due from one year shown under non-current liabilities	**64,947**	79,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2016, government loans of approximately HK$7,713,000 (2015: HK$9,387,000), HK$10,048,000 (2015: HK$10,744,000) and HK$57,182,000 (2015: HK$70,131,000) 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% (2015: 5.0% to 5.2%) 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 (2015: 0.3% per annum).

As at 31 December 2016, government loans of HK$6,698,000 was due for repayment on or before 31 December 2016 (2015: HK$7,162,000 which was due for repayment on or before 31 December 2015), HK$12,229,000 (2015: HK$14,215,000) are repayable on demand or within one year to nine years (2015: one year to ten years), and the remaining balances are repayable within thirteen years (2015: 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) are fixed-rate borrowings carrying interest at 20% per annum and due for repayment on or before 31 December 2015 and fully settled in 2016.

(iii) 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 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 were mature and fully settled in 2016.

On 14 June 2016, 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 payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$300 million, were issued on 14 June 2016 and 7 December 2016, respectively. These other loans will mature in one year from the date of issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. OBLIGATIONS UNDER FINANCE LEASES

	2016		2015	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**10,444**	**12,235**	–	–
After 1 year but within 2 years	**11,382**	**12,235**	–	–
After 2 years but within 5 years	**8,938**	**9,176**	–	–
	20,320	**21,411**	–	–
	30,764	**33,646**	–	–
Less: total future interest expenses		**(2,882)**		–
Present value of lease obligations		**30,764**		–

33. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

34. LOANS FROM ASSOCIATES

As at 31 December 2016, a loan of HK$2,927,000 (2015: HK$3,130,000) from an associate was unsecured, carried interest at 4.35% (2015: 4.35% to 5.6%) per annum and was repayable within a year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. CAPITAL AND RESERVES

(a) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share Capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2016	**798,270**	**954,318**	**23,044**	**(581,696)**	**1,193,936**
Changes in equity for 2016:					
Profit for the year	**–**	**–**	**–**	**5,067**	**5,067**
Other comprehensive income for the year:					
Fair value loss on available-for-sale investments	**–**	**–**	**(13,400)**	**–**	**(13,400)**
Reclassification on impairment of available-for-sale investments	**–**	**–**	**9,704**	**–**	**9,704**
Reclassification adjustments relating to available-for-sale investments disposed of during the year	**–**	**–**	**(10,455)**	**–**	**(10,455)**
Total comprehensive income for the year	**–**	**–**	**(14,151)**	**5,067**	**(9,084)**
At 31 December 2016	**798,270**	**954,318**	**8,893**	**(576,629)**	**1,184,852**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2016		2015	
	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**	**2,000,000**	2,000,000	2,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,596,540**	**798,270**	1,332,332	666,166
Placing of new shares *(note iii)*	**–**	**–**	266,000	133,000
Purchase of own shares for cancellation *(note iv)*	**–**	**–**	(1,792)	(896)
At 31 December	**1,596,540**	**798,270**	1,596,540	798,270

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. 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 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 35(a)).

(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(bb).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(iii) Reserve fund

Reserve fund arises from (i) Pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 3(o) and 3(p)(i).

(v) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 3(g).

36. GOVERNMENT GRANTS

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**17,256**	19,237
Additions	**24,988**	5,298
Recognised as other income for the year	**(10,949)**	(6,224)
Exchange realignment	**(1,745)**	(1,055)
At 31 December, classified as non-current liabilities	**29,550**	17,256

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$10,949,000 (2015: HK$6,224,000) was amortised and recognised in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits	Service concession arrangements	Exclusive rights	Revaluation on investment property/ resumption property	Property, plant and equipment transfer to investment property	Revaluation on investments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 subsidiaries *(note 38)*	–	–	382	–	–	–	382
Exchange realignment	(501)	(532)	(1,858)	(37)	–	–	(2,928)
At 31 December 2015 and 1 January 2016	**9,416**	**7,446**	**27,230**	**3,387**	**–**	**–**	**47,479**
Charged/(credited) to profit or loss for the year	**3,480**	**732**	**(2,245)**	**403**	**–**	**–**	**2,370**
Arising from acquisition of a subsidiary *(note 38)*	**–**	**–**	**9,216**	**–**	**–**	**–**	**9,216**
Arising from revaluation on investment properties	**–**	**–**	**–**	**–**	**1,196**	**–**	**1,196**
Exchange realignment	**(610)**	**(482)**	**(3,122)**	**(219)**	**–**	**–**	**(4,433)**
At 31 December 2016	**12,286**	**7,696**	**31,079**	**3,571**	**1,196**	**–**	**55,828**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

Reconciliation to the consolidated statements of financial position

	2016	2015
	HK$'000	*HK$'000*
Deferred tax assets	**(9,342)**	(7,096)
Deferred tax liabilities	**65,170**	54,575
	55,828	47,479

At 31 December 2016, the Group had unused tax losses of HK$63,645,000 (2015: HK$40,307,000) 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 2016, no tax losses can be carried forward indefinitely and tax losses of HK$63,645,000 (2015: HK$40,307,000) will expire in five years' time.

At 31 December 2016, the Group also has other deductible temporary differences of approximately HK$69,343,000 (2015: HK$116,793,000). 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$245,720,000 (2015: HK$188,320,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. ACQUISITION OF SUBSIDIARIES

The net assets acquired in the transaction and the goodwill arising are as follows:

	(a) Baoji	(b) Chenzhou Environmental	(c) Heng Yang Environmental	(d) Chongqing Camda	(e) Hainan Camda	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	5,171	7,401	6,332	22,185	9,717	50,806
Intangible assets	4,576	–	2,134	19,831	5,658	32,199
Deferred Tax Assets	–	–	–	481	7	488
Deposit for acquisition of property, plant and equipment	–	–	–	72	–	72
Inventories	132	6	–	214	–	352
Trade and other receivables	4,853	3,063	1,227	12,291	8,667	30,101
Bank balances and cash	274	292	416	873	2,994	4,849
Trade and other payables	(760)	(530)	(1,043)	(10,608)	(5,140)	(18,081)
Deferred tax liabilities	(1,180)	(348)	(965)	(5,724)	(1,486)	(9,703)
Total identified net assets at fair value	13,066	9,884	8,101	39,615	20,417	91,083
Goodwill arising on acquisition of subsidiaries (Note 21)	1,433	6,717	4,943	2,533	–	15,626
Gain on bargain purchase arising on acquisition of a subsidiary (Note 9)	–	–	–	–	(1,808)	(1,808)
Total consideration	14,499	16,601	13,044	42,148	18,609	104,901
Consideration payable	(4,096)	–	–	(18,590)	–	(22,686)
Consideration paid in cash	10,403	16,601	13,044	23,558	18,609	82,215
Cash and cash equivalent balances acquired	(274)	(292)	(416)	(873)	(2,994)	(4,849)
Net cash outflow on acquisition of subsidiaries for the year ended 31 December 2016	**10,129**	**16,309**	**12,628**	**22,685**	**15,615**	**77,366**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Baoji

On 3 August 2015, New China Water (Nanjing) Renewable Resources Investment Company Limited ("New China Water (Nanjing)") previously known as Greenspring (Nanjing) Recycling Resources Investment Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into sale and purchase agreement with two independent parties to acquire the entire issued share capital of Baoji City Electric Power Development Co., Ltd* ("Baoji") for a cash consideration of RMB12.23 million (approximately HK$14.50 million). The acquisition was completed on 23 May 2016, on the date the control in Baoji was passed to the Group, since then, the Group is interested in 100% equity interests of Baoji. Details of this acquisition are set out in the Company's announcements dated 3 August 2015. Baoji is principally engaged in new energy and renewable energy development, investment and associated technical research and consulting service, energy saving technical research and application. Baoji currently possesses of a waste landfill resource utilization project in Baoji City landfill site for an operation period of 20 years until April 2028.

	HK$'000
Total consideration paid	10,403
Consideration payable	4,096
Total consideration paid and payable	14,499

The goodwill is attributable to Baoji's strong position in the biogas power generation business in Baoji City, 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.

The fair value of trade and other receivables at the date of acquisition of HK$4,853,000 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 2016, Baoji contributed revenue and loss of HK$2,051,000 and HK$209,000, respectively, to the revenue and loss of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$551,333,000 and HK$84,475,000, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Baoji *(Continued)*

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(10,403)
Bank balances and cash acquired	274
	(10,129)

(b) Chenzhou Environmental

On 21 September 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") for a cash consideration of RMB14 million (approximately HK$16.60 million). The acquisition was completed on 3 March 2016, on the date the control in Chenzhou Environmental was passed to the Group, since then, the Group is interested in 100% equity interests of Chenzhou Environmental. Details of this acquisition are set out in the Company's announcements dated 21 September 2015. Chenzhou Environmental is principally engaged in solid waste detox treatment and landfill gas power generation in Xiangshan Ping, Suxian District, Chenzhou City, Hunan Province, for an operation period of 20 year until 29 February 2029.

	HK$'000
Total consideration paid	16,601
Consideration payable	–
Total consideration paid and payable	16,601

The goodwill is attributable to Chenzhou Environmental's strong position in the biogas power generation business in Chenzhou, 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.

The fair value of trade and other receivables at the date of acquisition of HK$3,063,000 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 2016, Chenzhou Environmental contributed revenue and loss of HK$1,792,000 and HK$59,000, respectively, to the revenue and loss of the Group for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Chenzhou Environmental *(Continued)*

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$550,656,000 and HK$84,448,000, 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

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(16,601)
Bank balances and cash acquired	292
	(16,309)

(c) Heng Yang Environmental

On 21 September 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") for a cash consideration of RMB11 million (approximately HK$13.04 million). The acquisition was completed on 3 March 2016, on the date the control in Heng Yang Environmental was passed to the Group, since then, the Group is interested in 100% equity interests of Heng Yang Environmental. Details of this acquisition are set out in the Company's announcements dated 21 September 2015. Heng Yang Environmental is principally engaged in solid waste detox treatment and landfill gas power generation in Zhang Mu Town, Hengyang County, Hunan Province, for an operation period of 20 years until October 2029.

	HK$'000
Total consideration paid	13,044
Consideration payable	–
Total consideration paid and payable	13,044

The above goodwill is attributable to Heng Yang Environmental's strong position in the biogas power generation business in Heng Yang, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) Heng Yang Environmental *(Continued)*

The fair value of trade and other receivables at the date of acquisition of HK$1,227,000 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 2016, Heng Yang Environmental contributed revenue and profit of HK$6,226,000 and HK$1,797,000, respectively, to the revenue and loss of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$551,003,000 and HK$84,698,000, 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.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(13,044)
Bank balances and cash acquired	416
	(12,628)

(d) Chongqing Camda

On 25 November 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") for a cash consideration of RMB35.43 million (approximately HK$42.15 million). The acquisition was completed on 13 May 2016, on the date the control in Chongqing Camda was passed to the Group, since then, the Group is interested in 100% equity interests of Chongqing Camda. Details of this acquisition are set out in the Company's announcements dated 25 November 2015. Chongqing Camda currently operates the Chongqing Changshengqiao Landfill gas collection and power generation project until May 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), granting the cooperation right to invest, construct, operate, maintenance and transfer the landfill project and in return to obtain a portion of the landfill's operating earnings for 21 years.

	HK$'000
Total consideration paid	23,558
Consideration payable	18,590
Total consideration paid and payable	42,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(d) Chongqing Camda *(Continued)*

The above goodwill is attributable to Chongqing Camda's strong position in the biogas power generation business in Chongqing, 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.

The fair value of trade and other receivables at the date of acquisition of HK$12,291,000 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 2016, Chongqing Camda contributed revenue and profit of HK$6,146,000 and HK$1,993,000, respectively, to the revenue and loss of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$570,583,000 and HK$87,262,000, 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.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(23,558)
Bank balances and cash acquired	873
	(22,685)

(e) Hainan Camda

On 25 November 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") for a cash consideration of RMB15.72 million (approximately HK$18.61 million). The acquisition was completed on 27 May 2016, on the date the control in Hainan Camda was passed to the Group, since then, the Group is interested in 100% equity interests of Hainan Camda. Details of this acquisition are set out in the Company's announcements dated 25 November 2015. Hainan Camda currently operates the Haikou City Yan Chunling Landfill gas utilization and power generation project*. Pursuant to the Haikou City Yan Chunling Landfill gas utilization project cooperation agreement* (海口市顏春嶺垃圾填埋氣沼氣利用合同書) entered into on 2 November 2007, Hainan Camda may collect and use the landfill gas in the Haikou City Yan Chunling Landfill until the volume of landfill gas generated from Haikou City Yan Chunling Landfill reduced to the level of which could not be further utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(e) Hainan Camda *(Continued)*

	HK$'000
Total consideration paid	18,609
Consideration payable	–
Total consideration paid and payable	18,609

The fair value of trade and other receivables at the date of acquisition of HK$8,667,000 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 2016, Hainan Camda contributed revenue and profit of HK$6,013,000 and HK$1,210,000, respectively, to the revenue and loss of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$555,551,000 and HK$87,582,000, 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.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(18,609)
Bank balances and cash acquires	2,994
	(15,615)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(f) Hunan Feng Ming

On 21 March 2015, 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 RMB459,000 (HK$624,000) as partial settlement of the consideration. The acquisition is considered to be completed on 14 October 2015.

	HK$'000
Total consideration paid	624
Consideration payable	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 21)*	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 37)*	(382)
Total identified net assets at fair value, consideration, satisfied in cash	3,657
Consideration payable	(3,033)
Cash and cash equivalent balances acquired	(17)
Net cash outflow in the year ended 31 December 2015	607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(f) 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.

* The English names are for identification purpose only.

39. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016	2015
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of concession intangible assets, plant and equipment *(note)*	**29,683**	110,548
– Properties under development in relation to development cost of existing projects	**–**	9,274
	29,683	119,822

Note: At 31 December 2016, the amount represented capital commitment contracted but not provided for acquisition of plant and equipment and concession intangible assets of HK$21,775,000 (2015: HK$105,966,000) and HK$7,908,000 (2015: HK$4,582,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 three 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:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**5,249**	1,966
After one year but within five years	**1,398**	5,044
After five years	**–**	–
	6,647	7,010

The Group as lessor

Property rental income earned during the year was approximately HK$1,458,000 (2015: HK$1,370,000) (note 9).

As at 31 December 2016, the properties were expected to generate rental yields of 7% per annum on an ongoing basis. The properties had committed tenants for eighteen 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:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**1,183**	–
After one year but within five years	**5,118**	–
After five years	**13,238**	–
	19,539	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

The 2011 Scheme (Continued)

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 2016 and 2015, 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$15,417,000 (2015: HK$13,725,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Investment in subsidiaries		**2**	2
Available-for-sale investments		**90,437**	181,424
		90,439	181,426
Current assets			
Financial assets at fair value through profit or loss		**232,808**	220,061
Other receivables		**56,844**	36,004
Amounts due from subsidiaries		**1,106,986**	931,363
Tax recoverables		**–**	3,404
Cash held by financial institutions		**310**	892
Bank balances and cash		**17,717**	17,370
		1,414,665	1,209,095
Current liabilities			
Other payables		**3,925**	3,536
Other loans		**285,269**	193,049
Overdraft		**31,058**	–
		320,252	196,585
Net current assets		**1,094,413**	1,012,510
Total assets less current liabilities		**1,184,852**	1,193,936
Capital and reserves			
Share capital	*35*	**798,270**	798,270
Reserves	*35*	**386,582**	395,666
Total equity		**1,184,852**	1,193,936
Non-current liabilities			
Deferred tax liabilities		**–**	–
		1,184,852	1,193,936

Approved and authorised for issue by the board of directors on 29 March 2017:

Lin Yue Hui
Director

Liu Feng
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The emoluments paid or payable to each of the 9 (2015: 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	2016 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Wang De Yin	–	2,730	726	18	3,474
Liu Feng	–	1,260	424	18	1,702
Lin Yue Hui	–	1,260	424	18	1,702
Chu Yin Yin, Georgiana	–	1,260	424	18	1,702
Deng Xiao Ting	–	1,680	424	17	2,121
	–	8,190	2,422	89	10,701
Independent Non-Executive Directors					
Guo Chao Tian	168	–	–	–	168
Li Jian Jun	120	–	–	–	120
Wong Siu Keung, Joe	168	–	–	–	168
Qiu Na	43	–	–	–	43
	499	–	–	–	499
	499	8,190	2,422	89	11,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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	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
Qiu Na	–	–	–	–	–
	435	–	–	–	435
	435	5,764	2,366	97	8,662

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 2016 and 2015.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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"). 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. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. Subsequent to the year ended, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowings and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. As at 31 December 2016 and 2015, 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 to the Group.

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

* The English names are for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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:

	2016	2015
	HK$'000	*HK$'000*
Short-term employee benefits	**14,478**	11,109
Post-employment benefits	**101**	105
	14,579	11,214

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

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For the year ended 31 December 2016

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 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
Amendments to HKAS 7, *Statement of cash flow: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealized losses*	1 January 2017
HKFRS 9, Financial Instruments	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2, Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16, Lease	1 January 2019

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.

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For the year ended 31 December 2016

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 15 September 2015, New China Water (Nanjing) Renewable Resources Investment Company Limited 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") (which principally engages in solid waste detox treatment and landfill gas power generation in Changan landfill site, Sichuan Province, the PRC.) at a consideration of approximately RMB50.20 million (equivalent to approximately HK$62.75 million).

As at 31 December 2016, the Company had paid the consideration of RMB20.08 million (approximately HK$22.42 million) as deposits. The acquisition was subsequently completed on 13 March 2017. Details of the acquisition have been set out in the Company's announcement dated 15 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 Sichuan Province, is an investment opportunity which is consistent with the long-term business strategy of the Group.

(b) On 15 December 2016, New China Water (Nanjing) and China Shipbuilding Industry Corporation (Shanghai) New Energy Company entered into an acquisition agreement to acquire entire equity interests of Ningbo Qiyao New Energy Company Limited* (which principally engages in principally engages in the operation of landfill gas power generation plant in Ningbo Yinzhou landfill, Ningbo City, Zhejiang Province) for a consideration of RMB5.90 million (equivalent to approximately HK$6.60 million)

As at 31 December 2016, the Company had paid the consideration of RMB5.90 million (approximately HK$6.60 million) as deposits. The acquisition was subsequently completed on 14 February 2017. Details of the acquisition have been set out in the Company's announcement dated 15 December 2016.

The directors of the Company strongly believe that the acquisitions, which allow the Group to expand into waste treatment and environment protection industry in Zhejiang Province, is an investment opportunity which is consistent with the long-term business strategy of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

48. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(c) On 30 December 2016, New China Water (Nanjing) and China Shipbuilding Industry Corporation (Shanghai) New Energy Company entered into an acquisition agreement to acquire entire equity interests of Shandong Qiyao New Energy Company Limited* (which principally engages in operation of landfill gas power generation plant in Shandong Laiwu landfill, Laiwu City, Shandong Province) for a consideration of RMB1.64 million (equivalent to approximately HK$1.84 million).

As at 31 December 2016, the Company had paid the consideration of RMB189,300 (approximately HK$211,000) as deposits. The acquisition was not completed up to date of report. Details of the acquisition have been set out in the Company's announcement dated 3 January 2017.

The directors of the Company strongly believe that the acquisitions, which allow the Group to expand into waste treatment and environment protection industry in Shandong Province, is an investment opportunity which is consistent with the long-term business strategy of the Group.

(d) On 23 January 2017, Shenzhen City New China Water Environmental Technology Limited (formally called "Shenzhen City Greenspring Recycling Resources Technology Limited") and Datang Huayin Electric Power Co., Ltd entered into acquisition agreements to acquire 51% interests of Datang Huayin Xiangtan Environmental Electricity Generation Company Limited (which principally engages in solid waste detox treatment and landfill gas power generation in Xiangtan Yuetang landfill, Xiangtan City, Hunan Province) for a consideration of RMB0.52 million (equivalent to approximately HK$0.58 million).

As at 31 December 2016, the Company had paid the consideration of RMB0.47 million (approximately HK$0.52 million) as deposits. The acquisition was subsequently completed on 24 February 2017. Details of the acquisition have been set out in the Company's announcement dated 23 January 2017.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

48. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(e) On 23 January 2017, Shenzhen City New China Water Environmental Technology Limited (formally called "Shenzhen City Greenspring Recycling Resources Technology Limited") and Xiangtan Feihong Industry Company* entered into acquisition agreements to acquire 49% interests of Datang Huayin Xiangtan Environmental Electricity Generation Company Limited (which principally engages in solid waste detox treatment and landfill gas power generation in Xiangtan Yuetang landfill, Xiangtan City, Hunan Province) for a consideration of RMB0.45 million (equivalent to approximately HK$0.50 million).

As at 31 December 2016, no consideration has been paid by the Company. The acquisition was subsequently completed on 24 February 2017. Details of the acquisition have been set out in the Company's announcement dated 23 January 2017.

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 target companies 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.

49. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.