

CHINA EVERBRIGHT WATER LIMITED

Unaudited financial statements for the first quarter ended 31 March 2015

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		Increase/ -decrease %
	1QFY2015 <i>HKD'000</i>	1QFY2014 <i>HKD'000</i>	
Revenue	436,326	241,902	80%
Cost of sales	<u>(218,687)</u>	<u>(108,574)</u>	101%
Gross profit	217,639	133,328	63%
Other income	9,035	2,708	234%
Administrative expenses	<u>(45,774)</u>	<u>(19,985)</u>	129%
Operating profit	180,900	116,051	56%
Finance costs	<u>(37,124)</u>	<u>(15,352)</u>	142%
Profit before tax	143,776	100,699	43%
Income tax	<u>(39,129)</u>	<u>(27,985)</u>	40%
Net profit for the period	104,647	72,714	44%
Other comprehensive income	<u>4,713</u>	<u>(70,609)</u>	-107%
Total comprehensive income for the financial period	<u>109,360</u>	<u>2,105</u>	5095%

	Group		Increase/ -decrease
	1QFY2015	1QFY2014	%
	<i>HKD'000</i>	<i>HKD'000</i>	
Net profit attributable to:			
Owners of the Company	100,861	67,754	49%
Non-controlling interests	3,786	4,960	-24%
	<u>104,647</u>	<u>72,714</u>	44%
Total comprehensive income attributable to:			
Owners of the Company	105,019	4,169	2419%
Non-controlling interests	4,341	(2,064)	-310%
	<u>109,360</u>	<u>2,105</u>	5095%

Note 1

Profit from operating activities is derived after charging the following items:

Depreciation	4,749	4,792	-1%
Amortisation of intangible assets	13,279	1,274	942%
Interest expense on:			
related party bank	1,674	1,805	-7%
other bank borrowings	31,548	10,710	195%
amounts due to group companies	3,902	2,837	38%

1(b)(i) Statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	31 March 2015 HKD'000	31 December 2014 HKD'000	31 March 2015 HKD'000	31 December 2014 HKD'000
Current Assets				
Cash and cash equivalents	336,771	681,101	43,265	103,109
Trade and other receivables	725,540	515,363	95,391	48,232
Financial receivables	538,269	483,143	–	–
Inventories	39,876	28,912	–	–
	<u>1,640,456</u>	<u>1,708,519</u>	<u>138,656</u>	<u>151,341</u>
Non-current Assets				
Property, plant and equipment	170,929	173,559	8	10
Financial receivables	4,526,927	4,483,539	–	–
Intangible assets	938,190	950,594	–	–
Goodwill	1,043,923	1,043,545	–	–
Investment in subsidiaries	–	–	9,974,512	9,931,051
Other receivables	1,774,740	1,751,793	–	–
	<u>8,454,709</u>	<u>8,403,030</u>	<u>9,974,520</u>	<u>9,931,061</u>
Current Liabilities				
Borrowings	717,932	762,718	290,339	281,248
Trade and other payables	795,298	599,843	60,575	68,795
Other financial liabilities	23,308	23,230	23,308	23,230
Provision for income tax	30,581	19,566	–	–
	<u>1,567,119</u>	<u>1,405,357</u>	<u>374,222</u>	<u>373,273</u>

	Group		Company	
	31 March	31 December	31 March	31 December
	2015	2014	2015	2014
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Net current assets/(liabilities)	73,337	303,162	(235,566)	(221,932)
Non-current Liabilities				
Borrowings	1,021,642	1,061,730	–	–
Other payables	–	264,325	–	–
Deferred tax liabilities	845,884	828,977	–	–
	1,867,526	2,155,032	–	–
Net assets	6,660,520	6,551,160	9,738,954	9,709,129
Capital and Reserve				
Share capital	2,549,345	2,549,345	2,549,345	2,549,345
Reserves	3,881,154	3,776,135	7,189,609	7,159,784
Equity attributable to owners of the Company	6,430,499	6,325,480	9,738,954	9,709,129
Non-controlling interests	230,021	225,680	–	–
	6,660,520	6,551,160	9,738,954	9,709,129

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount payable within one year or less, or on demand

As at 31 March 2015		As at 31 December 2014	
Secured	Unsecured	Secured	Unsecured
<i>(HKD'000)</i>	<i>(HKD'000)</i>	<i>(HKD'000)</i>	<i>(HKD'000)</i>
365,727	352,205	440,673	322,045

Amount payable after one year

As at 31 March 2015		As at 31 December 2014	
Secured	Unsecured	Secured	Unsecured
<i>(HKD'000)</i>	<i>(HKD'000)</i>	<i>(HKD'000)</i>	<i>(HKD'000)</i>
931,628	90,014	906,435	155,295

Details of Collateral

The secured borrowings of the Group as at 31 March 2015 and 31 December 2014 were secured by certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements, bank deposits and fixed assets. Certain bank facilities were guaranteed by related parties of the Group.

1(c) Consolidated statement of cash flow (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	1QFY2015 <i>HKD'000</i>	1QFY2014 <i>HKD'000</i>
Cash flow from operating activities		
Profit before tax	143,776	100,699
Adjustments for:		
Depreciation of property, plant and equipment	4,749	4,792
Amortisation of intangible assets	13,279	1,274
Unrealised exchange loss	3,665	4,939
Net finance costs	36,703	14,752
	<hr/>	<hr/>
Operating cash flow before working capital changes	202,172	126,456
Changes in working capital		
Financial receivables	(81,774)	15,183
Inventories	(10,867)	(236)
Trade and other receivables	(225,484)	(124,807)
Trade and other payables	(46,776)	(196,898)
	<hr/>	<hr/>
Cash used in operations	(162,729)	(180,302)
Income tax paid	(15,164)	(12,354)
	<hr/>	<hr/>
Net cash used in operating activities	(177,893)	(192,656)
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,534)	(2,127)
Interest received	421	600
	<hr/>	<hr/>
Net cash used in investing activities	(1,113)	(1,527)
	<hr/>	<hr/>

	1QFY2015 <i>HKD'000</i>	1QFY2014 <i>HKD'000</i>
Cash flow from financing activities		
Proceeds from bank borrowings	132,560	79,465
Repayment of bank borrowings	(238,050)	(50,264)
Decrease in pledged bank deposits	31,635	42,445
Increase in amount due from intermediate holding company	(27,800)	(50,592)
Increase in amount due to immediate holding company	–	19,075
Increase in amount due to fellow subsidiary	2,791	127,808
Interest paid	(37,124)	(15,352)
	<u> </u>	<u> </u>
Net cash (used in)/generated from financing activities	(135,988)	152,585
	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents	(314,994)	(41,598)
Cash and cash equivalents at the beginning of the period	499,331	246,945
Effect of exchange rate changes on cash and cash equivalents	1,685	(5,813)
	<u> </u>	<u> </u>
Cash and cash equivalents at end of the period	186,022	199,534
	<u> </u>	<u> </u>

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issued and distributions to shareholders, together with a comparative statement for the corresponding period of the immediate preceding financial year

	Share capital <i>HKD'000</i>	Share premium <i>HKD'000</i>	Foreign currency translation reserve <i>HKD'000</i>	Statutory reserve <i>HKD'000</i>	Other reserve <i>HKD'000</i>	Retained earnings <i>HKD'000</i>	Total <i>HKD'000</i>	Non- controlling interests <i>HKD'000</i>	Total equity <i>HKD'000</i>
Group									
At 1 January 2015	2,549,345	1,914,548	266,571	94,999	(2,181)	1,502,198	6,325,480	225,680	6,551,160
Profit for the period	-	-	-	-	-	100,861	100,861	3,786	104,647
Other comprehensive income	-	-	4,158	-	-	-	4,158	555	4,713
At 31 March 2015	<u>2,549,345</u>	<u>1,914,548</u>	<u>270,729</u>	<u>94,999</u>	<u>(2,181)</u>	<u>1,603,059</u>	<u>6,430,499</u>	<u>230,021</u>	<u>6,660,520</u>
At 1 January 2014	-	-	344,486	71,979	-	1,232,422	1,648,887	342,508	1,991,395
Profit for the period	-	-	-	-	-	67,754	67,754	4,960	72,714
Other comprehensive income	-	-	(63,585)	-	-	-	(63,585)	(7,024)	(70,609)
At 31 March 2014	<u>-</u>	<u>-</u>	<u>280,901</u>	<u>71,979</u>	<u>-</u>	<u>1,300,176</u>	<u>1,653,056</u>	<u>340,444</u>	<u>1,993,500</u>
Company									
At 1 January 2015	2,549,345	11,584,834	(59,686)	-	64,953	(4,430,317)	9,709,129	-	9,709,129
Loss for the period	-	-	-	-	-	(19,337)	(19,337)	-	(19,337)
Other comprehensive income	-	-	49,162	-	-	-	49,162	-	49,162
At 31 March 2015	<u>2,549,345</u>	<u>11,584,834</u>	<u>(10,524)</u>	<u>-</u>	<u>64,953</u>	<u>(4,449,654)</u>	<u>9,738,954</u>	<u>-</u>	<u>9,738,954</u>
At 1 January 2014	614,415	1,561,725	-	-	8,141	605,823	2,790,104	-	2,790,104
Loss for the period	-	-	-	-	-	(177,534)	(177,534)	-	(177,534)
Other comprehensive income	-	-	(24,416)	-	-	-	(24,416)	-	(24,416)
Exercise of Warrants	4,765	37,468	-	-	-	-	42,233	-	42,233
Issue of ordinary shares related to acquisition of subsidiary	18,218	133,378	-	-	-	-	151,596	-	151,596
Issue of employee share options	-	-	-	-	16,750	-	16,750	-	16,750
At 31 March 2014	<u>637,398</u>	<u>1,732,571</u>	<u>(24,416)</u>	<u>-</u>	<u>24,891</u>	<u>428,289</u>	<u>2,798,733</u>	<u>-</u>	<u>2,798,733</u>

1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial year reported on and as at the end of the corresponding period of the immediately preceding financial year.

The Company does not have any outstanding convertibles, preference shares and treasury shares for the financial quarter ended 31 December 2014 and 31 March 2015, except for outstanding warrants of 263,462.

1(d)(iii) The total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding financial year

The total number of issued shares excluding treasury shares were as follows:

31 March 2015 ('000): 2,487,261

31 December 2014 ('000): 2,487,261

2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Company's auditors.

3. Whether the figures have been audited, or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The same accounting policies and methods of computations have been applied.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

There are no changes in accounting policies.

6. Earnings per share of the group for the current financial year reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

Basic/Diluted earnings per share

	1QFY2015	1QFY2014
Profit attributable to owners of the Company (<i>HKD'000</i>)	100,861	67,754
Weighted average number of ordinary shares in issue (<i>'000</i>)	2,487,261	1,940,269
Basic/Diluted earnings per share (<i>HKD</i>)	<u>0.041</u>	<u>0.035</u>

For the purpose of calculation of earnings per share, the weighted average number of shares in issue for period ended 31 March 2014 is deemed as 1,940,269,305 shares.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial year

	Group		Company	
	31 March 2015 <i>HKD</i>	31 December 2014 <i>HKD</i>	31 March 2015 <i>HKD</i>	31 December 2014 <i>HKD</i>
Net asset value per ordinary share based on the existing issued share capital as at the respective period	<u>2.68</u>	<u>2.63</u>	<u>3.92</u>	<u>3.90</u>

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of any significant factors that effected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Overview

For 1QFY2015, the revenue of the Group has increased by 80% to HKD436.3 million compared with the revenue of HKD241.9 million for 1QFY2014. Gross profit of the Group has increased from HKD133.3 million to HKD217.6 million from 1QFY2014 to 1QFY2015, an increment of 63%. Gross profit margin of the Group decreased to 50% (1QFY2014: 55%). The net profit of the Group increased from HKD72.7 million to HKD104.6 million from 1QFY2014 to 1QFY2015, an increment of 44%.

Statement of Comprehensive Income

Revenue

Revenue increased by 80% from HKD241.9 million in 1QFY2014 to HKD436.3 million in 1QFY2015. The increase is mainly attributable to the increase of HKD111.5 million in construction revenue, increase of HKD42.1 million in operating income and increase of HKD40.6 million in finance income. Revenue from construction of water treatment plants was mainly attributed to the expansion projects of Boxing and Suzhou water plants.

Cost of sales

Cost of sales increased by 101% from HKD108.6 million in 1QFY2014 to HKD218.7 million in 1QFY2015. This is mainly attributable to the expansion of Boxing and Suzhou projects, which result in the increase of HKD61.9 million in construction cost. And the cost of sales increased by HKD48.2 million in accordance with the operating income increment.

Overall gross profit margin decreased to 50% (1QFY2014: 55%). This is mainly due to a larger portion of construction revenue recognized in the mix of the revenue of 1QFY2015 as compared to 1QFY2014. Construction activities have a lower profit margin as compared to operation activities in general. However, compared with 1QFY2014, the gross profit margin for construction activities has been improved as most of construction works done by Jiangsu Tongyong, a subsidiary of the group, which resulted in cost saving.

Other income

Other income has increased by 234% to HKD9.0 million as compared with HKD2.7 million in 1QFY2014. The increase of other income is mainly due to the increase in government grant received for the efforts made on sewage and emission reduction by Jiangyin water plants during the period.

Administrative expenses

Administrative expenses increased by 129% to HKD45.8 million (1QFY2014: HKD20.0 million) which is mainly due to the inclusion of HKD22.9 million of administrative expenses after the completion of the reverse takeover (“RTO”) on 12 December 2014 of the Hankore Group.

Finance costs

Finance cost has increased by HKD21.7 million or 142% from HKD15.4 million in 1QFY2014 to HKD37.1 million in 1QFY2015. The increase in finance cost is due to the consolidation of Hankore Group’s interest expense on bank borrowing and multicurrency Medium Term Notes (the “MTN”) of HKD22.5 million after the RTO.

Income tax

The income tax mainly consists of current tax expenses of HKD26.1 million (1QFY2014: HKD16.6 million) and deferred tax expense of HKD13.0 million (1QFY2014: HKD11.4 million). The increase in income tax is attributable to the increase of taxable income of the Group as compared with 1QFY2014.

Statement of Financial Position

Assets

The total assets of the Group was maintained at HKD10.1 billion as at 31 March 2015 with a slight decrease of HKD16.4 million when compared to that at 31 December 2014. The decrease in total assets is mainly attributable to the decrease of HKD344.3 million in cash and cash equivalents, decrease of HKD2.6 million in property, plant and equipment and decrease of HKD12.4 million in intangible assets. While the decrease is offset by the increase of HKD233.1 million in trade and other receivables, HKD98.5 million in financial receivables, and HKD11.0 million in inventories.

Cash and cash equivalents decreased from HKD681.1 million as at 31 December 2014 to HKD336.8 million as at 31 March 2015. The decrease is due to the net cash outflow of HKD177.9 million from operating activities and net cash outflow from investing activities amounting to HKD1.1 million. Meanwhile, a net cash outflow from financing activities amounting to HKD136.0 million recorded resulted from the repayment of bank borrowings and amount due to related parties in the first quarter of 2015.

Financial receivables (including current and non-current) increased from HKD5.0 billion to HKD5.1 billion as at 31 March 2015, an increase of HKD98.5 million. The increase in financial receivables is mainly attributable to the recognition of construction revenue from Suzhou and Boxing water plants during the period.

The current portion of trade and other receivables of the Group increased by HKD210.2 million from HKD515.3 million as at 31 December 2014 to HKD725.5 million as at 31 March 2015. The increase is mainly due to the growth of operating income of HKD80.8 million during this period and delay in receipt of water tariff amounting to HKD130.0 million, most of which have been received in April 2015.

Liabilities

Total borrowings including current and non-current borrowings decreased by HKD84.9 million. The movement mainly comprised of the proceeds from bank amounting to approximately HKD132.6 million, and repayments made to the bank borrowings and other loans amounting to HKD238.0 million during the period.

Increase of HKD195.5 million in current portion of trade and other payables were mainly due to reclassification of HKD264.3 million payables that are mainly payables to related parties from non-current liabilities to current liabilities. Regardless of the effect of reclassification, the trade and other payables will decrease by HKD68.8 million, of which HKD45.2 million is due to repayment to suppliers and others are due to the repayment to the related parties.

The Group was in a net current asset position of HKD73.3 million as at 31 March 2015 as compared to a net current asset position of HKD303.2 million as at 31 December 2014. The decrease of HKD229.9 million net current liability position was mainly due to the reclassification of HKD264.3 million payables from non-current liabilities to current liabilities. Regardless of the effect of reclassification, the net current asset will increase by HKD34.4 million compared to that of 31 December 2014.

Equity

Except for the recognition of profit attributable to owners of the Company amounting to HKD100.9 million and HKD4.2 million of the foreign exchange differences on translation from RMB to HKD, there are no other significant changes in equity.

Statement of Cash Flow

Cash and cash equivalents decreased from HKD681.1 million as at 31 December 2014 to HKD336.8 million as at 31 March 2015. Cash and cash equivalents included in consolidated statement of cash flow are comprised of the following:

	31 March 2015 HKD'000	31 December 2014 HKD'000
Cash and cash equivalents per statement of financial position	336,771	681,101
Less: Pledged bank deposits	<u>(150,749)</u>	<u>(181,770)</u>
Cash and cash equivalents per statement of cash flow	<u>186,022</u>	<u>499,331</u>

Net cash flow from operating activities

The Group has a cash inflow of HKD202.2 million before changes in working capital. Changes in working capital and payment of income tax has caused a cash outflow of HKD364.9 million and HKD15.2 million respectively. As a result, the Group has recorded a net cash outflow of HKD177.9 million from operating activities. The changes in working capital arose mainly from:

- (1) Increase in financial receivables of HKD81.7 million
- (2) Increase in inventories of HKD10.9 million
- (3) Increase in trade and other receivable of HKD225.5 million
- (4) Decrease in trade and other payable of HKD46.8 million

Net cash from investing activities

For 1QFY2015, the Group has recorded a net cash outflow of HKD1.1 million from investing activities. The cash outflow mainly resulted from payment for purchase of property, plant and equipment.

Net cash from financing activities

The Group has recorded a net cash outflow from financing activities of HKD136.0 million for 1QFY2015. The net cash outflow was caused by:

- (1) Net decrease in amount due from/to related parties of HKD25.0 million
- (2) Net repayment of borrowings of HKD105.5 million
- (3) Interest paid of HKD37.1 million
- (4) Decrease in pledged bank deposits of HKD31.6 million

Subsequent events

On 19 January 2015, the Company entered into subscription agreements with each of International Finance Corporation (“IFC”) and Dalvey Asset Holding Ltd (“DAH”, together with IFC, the “Investors”). The Company has agreed to allot and issue and the Investors have agreed to subscribe for an aggregate of 120,690,957 new ordinary shares in the capital of the Company (“Subscription Shares”) at an issue price of S\$0.94 per Subscription Share, representing gross proceeds of approximately S\$113,449,500, which will be utilized as working capital to fund the growth and expansion of the Company’s business. The subscription of new shares and other matters in connection with or arising out of the Subscriptions have been approved at a special general meeting held on 12 March 2015. On 21 April 2015, a total of 120,690,957 shares have been issued to the Investors.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

None.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting year and the next 12 months.

With the implementation of the new Environmental Protection Law (環境保護法) and emergence of new environment protection policies, especially the newly released The Water Pollution Prevention & Control Plan, also known as the Clean Water Action Plan (水十條), the PRC government has further raised its emphasis on the country’s environmental issues to a whole new level. The government will continue to encourage and support the social capital to participate in the investment and operation of urban infrastructure through service concession arrangement.

With strict law enforcement towards sewage treatment, it will bring along a huge market capacity expansion for the industry. The increasing procurement of sewage treatment services by the government will speed up the restructuring and upgrade of the industry. Riding on the favourable trend, the Group will seize the rare historical opportunity and fully utilize its excellent market resources to expand market share and strive to be one of the leading water companies in the PRC within the next three to five years.

11. Dividend

(a) *Current financial period reported on*

Nil

(b) *Corresponding Period of the immediately Preceding financial year*

Not applicable

(c) *Date payable*

Not applicable

(d) *Books closure date*

Not applicable

12. If no dividend has been declared/recommendeded, a statement to that effect

Not applicable.

13. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect

During this period, the Group does not have any general mandate from shareholders for Interested Person Transactions.

14. Status on the use of net proceeds raised from share placement and issue of MTN

On 12 December 2014, pursuant to the completion of the RTO, the Company has allotted and issued 1,940,269,305 Consideration Shares to the Vendor, China Everbright Water Holdings Limited, in satisfaction of the Consideration for the Proposed Acquisition. No cash has been received from issuance of Consideration Shares.

**CONFIRMATION BY THE BOARD
PURSUANT TO THE RULE 705(5) OF THE LISTING MANUAL**

I, Wang Tianyi, do hereby confirm on behalf of the Board of Directors of the Company that to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial results for the quarter ended 31 March 2015 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Wang Tianyi

Executive Director, Vice-Chairman and Chief Executive Officer

8 May 2015

DBS Bank Ltd. acted as the Financial Adviser to the Company in relation to the reverse takeover of the Company by China Everbright Water Holdings Limited which was completed on 12 December 2014. DBS Bank Ltd. assumes no responsibility for the contents of this Announcement.