

Press Release – For Immediate Release

**HanKore's 9MFY2014 net profit, excluding fair value
adjustments and one-off items, increases 146.2% yoy to
RMB88.0 million**

- 9MFY2014 revenue more than double yoy to RMB454.8 million, gross profit surged 81.0% to RMB192.4 million
- Profitability growth momentum continues as 3QFY2014 gross profit increased 40.7% yoy to RMB56.5 million on the back of 56.3% yoy jump in revenue to RMB125.7 million
- Group registered a net loss of RMB111.9 million in 3QFY2014 after one-off non-cash fair value adjustments and non-recurring expenses
- Group water treatment capacity to increase over the next 12 months based on the scheduled completions of plant expansion and upgrades

Singapore, 15 May 2014 – HanKore Environment Technology Group (“HanKore” or “the Group”) (汉科环境科技集团), an international group investing and operating in the water environment sector and a leader in the water environment market in China, reports a 56.3% year-on-year (“yoy”) increase in revenue to RMB125.7 million and a 40.7% yoy increase in gross profit to RMB56.5 million for the three months ended 31 March 2014 (“3QFY2014”). However, the Group’s profitability is affected by one-off non-cash fair value loss and non-recurring expenses, resulting in a net loss of RMB111.9 million for the period. If these anomalies were to be normalised, the Group would have recorded a 14.9% yoy increase in its net profit from RMB18.9 million for 3QFY2013 to RMB21.8 million for 3QFY2014.

Financial Analysis

RMB' Million	3QFY2014	3QFY2013	% Change	9MFY2014	9MFY2013	% Change
Revenue	125.7	80.4	56.3	454.8	227.1	100.3
Gross Profit	56.5	40.2	40.7	192.4	106.3	81.0
Gross Profit Margin	45.0%	50.0%	(5.0) pp	42.3	46.8	(4.5) pp
Net Profit	(111.9)	31.8	n.m.	(55.0)	68.6	-180.2
Normalised Net Profit*	21.8	18.9	14.9	88.0	35.7	146.2

pp: percentage point

n.m.: not meaningful

*Normalised by excluding all one-time expenses and non-cash fair value loss

The Group's revenue increased 56.3% yoy to RMB125.7 million for 3QFY2014 due to a 152.0% increase in construction revenue from RMB27.6 million for 3QFY2013 to RMB69.7 million for 3QFY2014. On the other hand, the revenue contribution from its recurring water operations increased 6.2% yoy from RMB52.7 million to RMB56.0 million.

Overall gross profit increased 40.7% from RMB40.2 million to RMB56.5 million for 3QFY2014. Its gross profit margin decreased 5.0 percentage points from 50.0% to 45.0% mainly due to the larger portion of construction revenue recognized for 3QFY2014 as compared to 3QFY2013. Gross profit margin from the construction segment for 3QFY2014 is 23.7% while gross profit margin from the water treatment segment is 71.4%.

The Group's profitability took a turn for 3QFY2014 and recorded a net loss of RMB111.9 million due to a number of one-off non-cash expenses that were recognized during the financial period.

Operating expenses surged from 1.5 million for 3QFY2013 to RMB113.7 million for 3QFY2014 mainly due to a fair value loss incurred by the issuance of Tranche 2 Shares of contingent consideration relating to the acquisition of Jiangsu Tongyong Environment Engineering Co., Ltd ("Jiangsu Tongyong") and the exercise of warrants. As Jiangsu Tongyong's 2013 audited net profit exceeded the earnings target of RMB23.0 million, the Group has allotted and issued 180 million Consideration Shares to Jiangsu Tongyong on 14 March 2014. On the other hand, 47,692,402

million warrants were exercised and converted into 47,692,402 million new share of the Group on 19 March 2014. As the company's share price had more than doubled from the issue of warrants and the signing of Sales and Purchase agreements for Jiangsu Tongyong, a fair value loss amounting to RMB110.0 million was recognized in the Group's other operating expense. These fair value losses incurred do not have any impact on the Group's cash flow. As at 31 March 2014, there are 16,441,796 warrants outstanding. The fair value loss in this quarter was fully accounted for all outstanding warrants.

In addition, the Group's administrative expenses increased 313.6% from RMB10.1 million for 3QFY2013 to RMB41.9 million for 3QFY2014. The increase is mainly expense relating to equity-settled payment due to the employee share option issued by the Group on 15 November 2013, and professional fees relating to the acquisition of China Everbright International's ("CEI") water treatment assets. The employee share option expense will not be incurred after the one year vesting period, which lasts until November 2014. The employee share option expense does not have any impact on the Group's operating cash flow.

The Group's other income has decreased 60.9% from RMB14.0 million to RMB5.5 million. The difference is mainly due to a one-time gain from the disposal of Suqian plant which happened in 3QFY2013.

If the Group were to normalise all the one-off expenses above, the Group would have obtained a net profit position of RMB27.8 million for 3QFY2014, a 14.9% increase from its normalised net profit of RMB18.9 million for 3QFY2013. Similarly for 9MFY2014, the Group's normalized net profit jumped 146.2% yoy from RMB35.7 million to RMB88.0 million.

Outlook

China's water treatment sector remains attractive as the government continues to pay attention to improving its water standards. Despite the steady increase in water and wastewater prices in China for the past 10 years, the price remains low at 46 cents per cubic metre on average, in comparison

to the global average of \$2.03 per cubic metre. In a Deutsche bank report published in 2013, it predicts a 30% increase in China's water tariff within the next three years¹.

Mr. David Chen, Chairman of HanKore, remarks, **"With the rising water standards, many water treatment plants will be forced to undergo upgrades to improve their water discharge quality. Smaller players who are unable to raise enough capital for plant upgrades will have to sell their assets to bigger and stronger players in the market. Thus, we predict a consolidation in the currently fragmented water sector.**

Over the past 3 years, we have established ourselves as a notable player in the water industry with a credible track record, delivering timely and quality results. As a result, we have formed strong rapport with the local government who are willing to grant us key water treatment projects. We will tap on our strong relationship with the local government and gain more Build-Operate-Transfer ("BOT") and Transfer-Operate-Transfer ("TOT") projects during the time of rapid market consolidation.

Five of our plants are undergoing expansion and upgrading; some have already completed its phase II construction, currently pending the local government's approval of water discharge price increase. We are kicking start water treatment plants upgrades and expansions for our remaining six plants this year. We believe that the higher capacity and water tariff prices will be positively reflected in our revenue growth in the future."

As the mutual due diligence is still in progress, the Group has extended the exclusivity period of framework agreement for the proposed acquisition of CEI's water asset to 31 May 2014.

- End -

¹ <http://online.wsj.com/news/articles/SB10001424052702303870704579297410328066466>



HanKore Environment Tech. Group Limited 汉科环境科技集团
Room 1105-1110, 11F, Jialong International Tower,
No.19 Chaoyang Park Road, Chaoyang District, Beijing, PRC 100125
北京市朝阳区朝阳公园路 19 号佳隆国际大厦 1105-1110, 邮编 100125

About HanKore Environment Technology Group Ltd

HanKore Environment Technology Group (汉科环境科技集团) is an international group investing and operating in the water environment sector. Headquartered in Beijing, HanKore is a leader in the water environment market in China.

Leveraging on its well defined strategic planning and responsive operational philosophy, HanKore has expanded throughout China rapidly with its competitive strengths in technology and capital funding. Following the successful project executions in Xianyang, Kunshan, Lianyungang, Nanjing, Suzhou, Beijing, Binzhou and Jiangdu, the Group has built a wealth of experience in the project funding, construction and operation in the municipal public utilities segment.

Presently, HanKore has invested in 17 large scale municipal water/wastewater projects in Beijing, Jiangsu, Shandong, Shaanxi and Henan. The Group is now a large scale integrated water environment group in the financing, engineering & construction, operation, equipment and engineering contracting in municipal public utilities. The Group's operations extend over water supply, waste water treatment, treated water recycling businesses.

HanKore was listed on the Mainboard of the Singapore Exchange in February 2004.

For more information, please visit www.hankore.com.

**Issued for and on behalf of HanKore Environment Tech. Group Limited
By Financial PR Pte Ltd**

For more information please contact:
Charlotte FU, charlotte@financialpr.com.sg
Jasmine LEONG, jasmine@financialpr.com.sg
Yit Sung NGO, yitsung@financialpr.com.sg
Tel: (65) 6438 2990 Fax: (65) 6438 0064