

CHINA EVERBRIGHT WATER LIMITED

FY2016 Annual Results

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS

The board of directors of China Everbright Water Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the financial year ended 31 December 2016 (“FY2016”).

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

	Group		Increase/ -decrease %
	FY2016 <i>HKD'000</i>	FY2015 <i>HKD'000</i>	
Revenue	2,494,037	1,815,150	37%
Cost of sales	<u>(1,588,385)</u>	<u>(990,926)</u>	60%
Gross profit	905,652	824,224	10%
Other income	127,666	103,651	23%
Administrative and other operating expenses	<u>(298,250)</u>	<u>(213,546)</u>	40%
Results from operating activities	735,068	714,329	3%
Finance income	7,631	9,799	-22%
Finance costs	<u>(205,223)</u>	<u>(127,998)</u>	60%
Profit before tax	537,476	596,130	-10%
Income tax	<u>(164,861)</u>	<u>(172,462)</u>	-4%
Net profit for the financial year	<u>372,615</u>	<u>423,668</u>	-12%
Net profit attributable to:			
Shareholders of the Company	349,343	406,242	-14%
Non-controlling interests	<u>23,272</u>	<u>17,426</u>	34%
	<u>372,615</u>	<u>423,668</u>	-12%

	Group		Increase/ -decrease %
	FY2016 <i>HKD'000</i>	FY2015 <i>HKD'000</i>	
Net profit for the financial year	372,615	423,668	-12%
Other comprehensive income:			
– foreign currency translation differences	<u>(598,600)</u>	<u>(337,571)</u>	77%
Total comprehensive income for the financial year	<u>(225,985)</u>	<u>86,097</u>	-362%
Total comprehensive income attributable to:			
Shareholders of the Company	(228,390)	75,700	-402%
Non-controlling interests	<u>2,405</u>	<u>10,397</u>	-77%
	<u>(225,985)</u>	<u>86,097</u>	-362%

Profit from operating activities is derived after (charging)/crediting the following items:

	Group		Increase/ -decrease %
	FY2016 <i>HKD'000</i>	FY2015 <i>HKD'000</i>	
Depreciation of property, plant and equipment	(14,986)	(13,826)	8%
Amortisation of intangible assets ¹	(86,290)	(58,001)	49%
Government grant	6,491	31,868	-80%
Interest expenses on:			
– related party bank borrowings	(2,362)	(3,984)	-41%
– other bank borrowings and notes payable	(192,327)	(110,906)	73%
– amounts due to group companies	(10,534)	(13,108)	-20%

1 The increase in amortisation of intangible assets was mainly due to the acquisition of Dalian Dongda Water Co., Ltd. (“Dalian Dongda” and together with its subsidiaries, “Dalian Dongda Group”) in November 2015.

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 December 2016 HKD'000	31 December 2015 HKD'000	31 December 2016 HKD'000	31 December 2015 HKD'000
Current Assets				
Inventories	14,323	10,689	–	–
Trade and other receivables	588,739	641,525	2,096,933	1,672,655
Service concession financial receivables	791,609	893,423	–	–
Cash and cash equivalents	1,902,741	1,768,990	30,716	7,248
	<u>3,297,412</u>	<u>3,314,627</u>	<u>2,127,649</u>	<u>1,679,903</u>
Non-current Assets				
Property, plant and equipment	147,971	162,587	31	3
Intangible assets	1,259,449	1,440,075	–	–
Goodwill	1,185,478	1,268,925	–	–
Interest in an associate	1,327	–	–	–
Investment in subsidiaries	–	–	9,190,573	9,533,310
Other receivables	9,863	39,525	–	21,120
Service concession financial receivables	8,179,732	7,713,209	–	–
	<u>10,783,820</u>	<u>10,624,321</u>	<u>9,190,604</u>	<u>9,554,433</u>
Current Liabilities				
Borrowings	1,521,407	2,394,574	756,892	1,000,073
Trade and other payables	937,238	475,430	20,655	25,450
Current tax liabilities	13,102	52,278	–	–
	<u>2,471,747</u>	<u>2,922,282</u>	<u>777,547</u>	<u>1,025,523</u>

	Group		Company	
	31 December 2016 HKD'000	31 December 2015 HKD'000	31 December 2016 HKD'000	31 December 2015 HKD'000
Net Current Assets	825,665	392,345	1,350,102	654,380
Non-current Liabilities				
Borrowings	3,366,091	2,423,663	1,203,692	193,813
Deferred tax liabilities	1,051,692	1,055,223	–	–
Other payables	–	240,760	–	–
	4,417,783	3,719,646	1,203,692	193,813
Net Assets	7,191,702	7,297,020	9,337,014	10,015,000
Equity				
Share capital	2,609,908	2,608,014	2,609,908	2,608,014
Reserves	4,188,279	4,452,929	6,727,106	7,406,986
Equity attributable to shareholders of the Company	6,798,187	7,060,943	9,337,014	10,015,000
Non-controlling interests	393,515	236,077	–	–
Total equity	7,191,702	7,297,020	9,337,014	10,015,000

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

(i) *Amount repayable in one year or less, or on demand*

As at 31 December 2016		As at 31 December 2015	
Secured	Unsecured	Secured	Unsecured
<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
116,715	1,404,692	1,169,865	1,224,709

(ii) *Amount payable after one year*

As at 31 December 2016		As at 31 December 2015	
Secured	Unsecured	Secured	Unsecured
<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
2,281,066	1,085,025	1,069,413	1,354,250

Details of Collateral

The secured borrowings of the Group as at 31 December 2016 and 31 December 2015 were secured by certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements, bank deposits and property, plant and equipment of the Group.

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

	FY2016 <i>HKD'000</i>	FY2015 <i>HKD'000</i>
Cash flows from operating activities		
Profit before tax	537,476	596,130
Adjustments for:		
Depreciation of property, plant and equipment	14,986	13,826
Amortisation of intangible assets	86,290	58,001
Loss on disposal of property, plant and equipment	369	510
Fair value loss on cross-currency swap	–	9,555
Gain on disposal of equity interest in a subsidiary	(402)	–
Effect of foreign exchange rates changes	(40,658)	(33,662)
Net finance costs	197,592	118,199
Operating cash flows before working capital changes	795,653	762,559
Changes in working capital:		
Service concession financial receivables	(934,982)	(481,781)
Trade and other receivables	9,868	(131,371)
Trade and other payables	288,913	(38,892)
Inventories	(5,465)	17,065
Cash generated from operations	153,987	127,580
Income tax paid	(133,792)	(94,975)
Net cash generated from operating activities	20,195	32,605
Cash flows from investing activities		
Payment made for the acquisition of subsidiaries, net of cash acquired	–	(2,163,337)
Purchase of property, plant and equipment	(11,864)	(10,227)
Interest received	7,631	9,799
Payment for additions of intangible assets	(988)	(14,020)
Proceeds from sales of property, plant and equipment	87	314
Disposal of equity interest in a subsidiary, net of cash disposed	(1,195)	–
Net cash used in investing activities	(6,329)	(2,177,471)

	FY2016 <i>HKD'000</i>	FY2015 <i>HKD'000</i>
Cash flows from financing activities		
Proceeds from bank borrowings	4,431,374	4,218,794
Repayment of bank and other borrowings	(4,121,687)	(1,310,224)
Proceeds from issue of shares	–	659,031
Payments for share buy-back	(22,489)	–
Increase in restricted bank deposits	(94,734)	(305,950)
Interest paid	(205,223)	(127,998)
Settlement of cross-currency swap	–	(30,644)
Increase/(decrease) in amount due to intermediate holding companies	3,711	(148,481)
Increase/(decrease) in amount due to fellow subsidiaries	8,256	(1,177)
Dividends paid to shareholders	(11,877)	–
Dividends paid to a non-controlling shareholder	(14,550)	–
Contributions from non-controlling shareholders	169,583	–
Proceeds from exercise of warrants	–	732
	<hr/>	<hr/>
Net cash generated from financing activities	142,364	2,954,083
	<hr/>	<hr/>
Net increase in cash and cash equivalents	156,230	809,217
Cash and cash equivalents at the beginning of the year	1,288,550	499,331
Effect of exchange rate fluctuations on cash and cash equivalents	(85,379)	(19,998)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	1,359,401	1,288,550
	<hr/>	<hr/>

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 financial year

	Share capital	Share premium	Foreign currency translation reserve	Statutory reserve	Contributed surplus reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Group										
At 1 January 2016	2,608,014	1,210,050	(1,887)	121,317	1,243,508	(2,181)	1,882,122	7,060,943	236,077	7,297,020
Profit for the year	-	-	-	-	-	-	349,343	349,343	23,272	372,615
Foreign currency translation differences	-	-	(577,733)	-	-	-	-	(577,733)	(20,867)	(598,600)
Transfer to statutory reserve	-	-	-	34,318	-	-	(34,318)	-	-	-
Issue of shares pursuant to scrip dividend scheme	10,177	30,250	-	-	-	-	(40,427)	-	-	-
Dividends paid to shareholders	-	-	-	-	-	-	(11,877)	(11,877)	-	(11,877)
Shares buy-back	(8,283)	-	-	-	(14,206)	-	-	(22,489)	-	(22,489)
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	169,583	169,583
Dividends paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	(14,550)	(14,550)
At 31 December 2016	<u>2,609,908</u>	<u>1,240,300</u>	<u>(579,620)</u>	<u>155,635</u>	<u>1,229,302</u>	<u>(2,181)</u>	<u>2,144,843</u>	<u>6,798,187</u>	<u>393,515</u>	<u>7,191,702</u>
At 1 January 2015	2,487,261	1,914,548	328,655	94,999	-	(2,181)	1,502,198	6,325,480	225,680	6,551,160
Profit for the year	-	-	-	-	-	-	406,242	406,242	17,426	423,668
Foreign currency translation differences	-	-	(330,542)	-	-	-	-	(330,542)	(7,029)	(337,571)
Transfer to statutory reserve	-	-	-	26,318	-	-	(26,318)	-	-	-
Issue of ordinary shares	120,691	538,340	-	-	-	-	-	659,031	-	659,031
Exercise of warrants	62	670	-	-	-	-	-	732	-	732
Share premium reduction	-	(1,243,508)	-	-	1,243,508	-	-	-	-	-
At 31 December 2015	<u>2,608,014</u>	<u>1,210,050</u>	<u>(1,887)</u>	<u>121,317</u>	<u>1,243,508</u>	<u>(2,181)</u>	<u>1,882,122</u>	<u>7,060,943</u>	<u>236,077</u>	<u>7,297,020</u>

Company	Share capital HKD'000	Share premium HKD'000	Foreign currency translation reserve HKD'000	Contributed surplus reserve HKD'000	Other reserves HKD'000	Retained earnings/ (accumulated losses) HKD'000	Total equity HKD'000
At 1 January 2016	2,608,014	-	(424,795)	7,653,288	64,953	113,540	10,015,000
Profit for the year	-	-	-	-	-	16,288	16,288
Foreign currency translation differences	-	-	(659,908)	-	-	-	(659,908)
Issue of shares pursuant to scrip dividend scheme	10,177	30,250	-	-	-	(40,427)	-
Dividends paid to shareholders	-	-	-	-	-	(11,877)	(11,877)
Shares buy-back	(8,283)	-	-	(14,206)	-	-	(22,489)
	<u>2,609,908</u>	<u>30,250</u>	<u>(1,084,703)</u>	<u>7,639,082</u>	<u>64,953</u>	<u>77,524</u>	<u>9,337,014</u>
At 31 December 2016							
At 1 January 2015	2,487,261	11,584,834	2,398	-	64,953	(4,430,317)	9,709,129
Profit for the year	-	-	-	-	-	73,301	73,301
Foreign currency translation differences	-	-	(427,193)	-	-	-	(427,193)
Issue of ordinary shares	120,691	538,340	-	-	-	-	659,031
Exercise of warrants	62	670	-	-	-	-	732
Share premium reduction	-	(12,123,844)	-	7,653,288	-	4,470,556	-
	<u>2,608,014</u>	<u>-</u>	<u>(424,795)</u>	<u>7,653,288</u>	<u>64,953</u>	<u>113,540</u>	<u>10,015,000</u>
At 31 December 2015							

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 immediately preceding financial year 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.

	No. of ordinary shares issued ('000)
At 31 December 2015	2,608,014
Share buy-back during the year	(8,283)
Share issuance pursuant to scrip dividend scheme	<u>10,177</u>
At 31 December 2016	<u>2,609,908</u>

The Company does not have any outstanding convertibles, preference shares and treasury shares as at 31 December 2016 and 31 December 2015. The increase in the Company's share capital during the year was due to the issuance of shares pursuant to the scrip dividend scheme where 10,177,139 shares were issued in June 2016. The increase was offset by 7,793,400 shares and 490,000 shares bought back in January and December 2016 respectively.

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

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

	31 December 2016	31 December 2015
Total number of issued shares excluding treasury shares ('000)	<u>2,609,908</u>	<u>2,608,014</u>

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. Where 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.

The Group and the Company have reviewed the application of the new/revised International Financial Reporting Standards ("IFRS") and Interpretations of IFRS that are effective for the financial year beginning on 1 January 2016. Those new/revised IFRS and Interpretations of IFRS did not result in any significant impact on the financial statements.

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

Basic/diluted earnings per share	FY2016	FY2015
Net profit attributable to shareholders of the Company (HKD'000)	349,343	406,242
Weighted average number of ordinary shares in issue (million)	2,606	2,571
Basic/diluted earnings per share (HKD)	<u>0.134</u>	<u>0.158</u>

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 year reported on; and (b) immediately preceding financial year.**

	Group		Company	
	31 December 2016 HKD	31 December 2015 HKD	31 December 2016 HKD	31 December 2015 HKD
Net asset value per ordinary share based on the existing issued share capital as at the respective date	<u>2.60</u>	<u>2.71</u>	<u>3.58</u>	<u>3.84</u>

Net asset value per ordinary share was calculated by the net asset value attributable to equity shareholders of the Company divided by the number of ordinary shares outstanding excluding treasury shares as at the end of the relevant financial year.

- 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 affected the turnover, costs, and earnings of the group for the current financial year 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 year reported on.**

Overview

As one of the leading investment and operation companies in China focusing on integrated environmental water services, the Company is principally engaged in integrated environmental water services, sponge city construction, waste water treatment, watershed management, reusable water, waste water source heat pump, sludge treatment, research and development of environmental water technologies and engineering construction. The designed daily capacity of the water treatment projects which the Company invests in, constructs and operates reached 5,000,000 m³.

As at 31 December 2016, the Group held 60 projects in operation, 4 projects completing construction, 5 projects under construction and 1 project in preparatory stage in the area of waste water treatment, with a total designed daily waste water treatment capacity of 3,940,000 m³; 1 sponge city construction project under construction, which involves a series of ecological restoration works and waste water treatment projects with a daily waste water treatment capacity of 275,000 m³; 1 river training project under construction; 4 projects in operation and 1 project completing construction in the area of reusable water, with a total designed daily reusable water supply capacity of 81,600 m³; 2 waste water source heat pump projects; 59 kilometers of pipeline network and 10 pump stations; and 1 Build-Transfer surface water project. During the year under review, the Group treated an aggregate of 1,148,279,000 m³ (2015: 899,163,000 m³) waste water, representing an increase of 28% over last year.

For FY2016, the revenue of the Group rose to HKD2.49 billion, an increase of 37% from HKD1.82 billion for FY2015. Gross profit of the Group increased from HKD824.22 million in FY2015 to HKD905.65 million in FY2016 by 10%. The net profit attributable to shareholders of the Company in FY2016 amounted to HKD349.34 million, which decreased by 14% from FY2015. The decrease was mainly due to the increase in administrative expenses and finance costs. Thus, basic/diluted earnings per share decreased by 15% to HKD0.134 in FY2016.

Consolidated Statement of Comprehensive Income

Revenue

Revenue increased by 37% from HKD1.82 billion in FY2015 to HKD2.49 billion in FY2016. The increase was mainly attributable to the increase of HKD542.07 million in construction revenue, HKD65.94 million in operation services income and HKD70.88 million in finance income. The increase in construction revenue was mainly attributable to the expansion and upgrading of several Build-Operate-Transfer (“BOT”) projects which were completed or under construction during FY2016. The increase in operation services income and finance income was mainly due to the full-year effect of Dalian Dongda Group in FY2016 as compared to only 2 months’ in FY2015.

Cost of sales

Cost of sales increased by 60% from HKD990.93 million in FY2015 to HKD1,588.39 million in FY2016.

The increase was mainly due to: (i) increase of operation cost arising from the full-year effect of Dalian Dongda Group’s operation in FY2016 as compared to 2 months’ in FY2015; and (ii) increase in construction cost arising from the increased construction services, which contributed a construction revenue of HKD1,133.96 million in FY2016 as compared to that of HKD591.89 million in FY2015. In general, procurement and installation services when performed by the in-house engineering company usually generate additional cost-savings for the Group. The proportion of such services rendered in FY2016 was smaller as compared to FY2015, resulting in less cost-savings realised in FY2016. These factors contributed to the higher percentage growth for cost of sales as compared to the percentage growth for revenue.

Gross profit margin

Overall gross profit margin in FY2016 decreased to 36% (FY2015: 45%), which was mainly due to a larger portion of construction revenue recognised in the mix of the total revenue of FY2016 as compared to FY2015. Construction revenue comprised approximately 45% of total revenue in FY2016 (FY2015: 33%). In general, construction services have lower gross profit margin as compared to operation services.

Other income

Other income increased by 23% to HKD127.67 million in FY2016 as compared with HKD103.65 million in FY2015. Other income consisted of value-added tax refund, government grant and other sundry income. The increase in other income was mainly due to increase in value-added tax refund during FY2016.

Administrative and other operating expenses

Administrative and other operating expenses mainly consisted of staff costs, rental expenses, foreign exchange differences and legal and professional fees.

Administrative and other operating expenses increased by 40% from HKD213.55 million in FY2015 to HKD298.25 million in FY2016. The increase was mainly due to: (i) business expansion of the Group, including expansion and upgrading of several existing projects and the acquisitions, which resulted in an increase in staff costs, marketing expenses and other operating expenses; and (ii) foreign exchange losses of HKD48.71 million arising from borrowings pegged to USD as RMB depreciated against USD in FY2016. The borrowings pegged to USD mentioned above had been fully repaid by the end of July 2016.

Finance costs

Finance costs increased by HKD77.22 million from HKD128.00 million in FY2015 to HKD205.22 million in FY2016. The average balance of borrowings was around HKD4.85 billion in FY2016 as compared to HKD3.32 billion in FY2015. The Group will continue to focus on replacing higher interest rate borrowings with lower interest rate borrowings so as to reduce the overall average borrowing costs.

Income tax

Income tax expense in FY2016 mainly consisted of current PRC income tax of HKD94.83 million (FY2015: HKD101.59 million) and deferred tax expense of HKD70.03 million (FY2015: HKD70.87 million). The decrease in income tax was attributable to decrease of taxable income of the Group as compared with FY2015. The effective tax rate increased from 28.9% in FY2015 to 30.7% in FY2016, due to change in calculation of deferred tax as certain expenses were not qualified as deductible under the local tax bureau.

Consolidated Statement of Financial Position

Assets

The total assets of the Group stood at HKD14.08 billion as at 31 December 2016 as compared to HKD13.94 billion as at 31 December 2015.

Cash and cash equivalents slightly increased from HKD1.77 billion as at 31 December 2015 to HKD1.90 billion as at 31 December 2016.

Service concession financial receivables (including both current and non-current) increased from HKD8.61 billion as at 31 December 2015 to HKD8.97 billion as at 31 December 2016, representing an increase of HKD0.36 billion. The increase in service concession financial receivables was mainly attributable to the recognition of construction revenue for several water treatment plants during FY2016.

Trade and other receivables (including both current and non-current) of the Group decreased by HKD82.45 million from HKD681.05 million as at 31 December 2015 to HKD598.60 million as at 31 December 2016. Trade receivables decreased by HKD34.84 million to HKD429.60 million as at 31 December 2016, which was mainly due to the improvement in settlement from customers during FY2016. Other receivables decreased by HKD47.61 million during FY2016, which was mainly due to the decrease in prepayments for construction work.

Interest in an associate arose from the disposal of the Group's 50% equity interest in Qingdao Everbright Water Operating Limited ("Qingdao Operating"). On 5 December 2016, China Everbright Water Investments Limited, the wholly-owned subsidiary of the Company, entered into an equity interest transfer agreement with an independent third party to dispose the Group's 50% equity interest in Qingdao Operating at a total consideration of approximately RMB1.19 million. Upon the disposal, the Group's equity interest in Qingdao Operating decreased from 99% to 49%, and thus, Qingdao operating became an associate of the Group and the Group ceased to control Qingdao Operating.

Liabilities

The amount of the total borrowings (including both current and non-current) was HKD4,887.50 million as at 31 December 2016 as compared to HKD4,818.24 million as at 31 December 2015, representing an increase of HKD69.26 million.

The current portion of trade and other payables increased by HKD461.81 million which was mainly due to: (i) the increase of HKD233.29 million in trade and other payables to third parties in relation to construction work; and (ii) reclassification of related parties' balance from non-current liabilities to current liabilities.

The Group was in a net current asset position of HKD825.67 million as at 31 December 2016, an increase of HKD433.32 million from HKD392.35 million as at 31 December 2015.

Equity

The Group's total equity amounted to HKD7.19 billion as at 31 December 2016 (31 December 2015: HKD7.30 billion). The change was mainly due to the following: (i) profit amounting to HKD372.62 million recognised in FY2016; (ii) contribution of HKD169.58 million from non-controlling shareholders of the PRC subsidiaries during FY2016; and (iii) the foreign currency translation losses of HKD598.60 million arising from the depreciation of RMB against HKD recognised in FY2016 which have been included in other comprehensive income.

Consolidated Statement of Cash Flows

Cash and cash equivalents increased from HKD1.77 billion as at 31 December 2015 to HKD1.90 billion as at 31 December 2016. Cash and cash equivalents included in the consolidated statement of cash flow comprised of the following:

	31 December 2016 HKD'000	31 December 2015 HKD'000
Cash and cash equivalents per statement of financial position	1,902,741	1,768,990
Less: Restricted bank balances	(543,340)	(480,440)
	<u>1,359,401</u>	<u>1,288,550</u>

Net cash flows from operating activities

The Group had cash inflow of HKD795.65 million before changes in working capital during this financial year. Changes in working capital and payment of income tax resulted in cash outflow of HKD641.67 million and HKD133.79 million respectively. As a result, the Group recorded a net cash inflow of HKD20.20 million from operating activities. The changes in working capital arose mainly from:

- (1) increase in service concession financial receivables by HKD934.98 million;
- (2) decrease in trade and other receivables by HKD9.87 million;
- (3) increase in trade and other payables by HKD288.91 million; and
- (4) increase in inventories by HKD5.47 million.

Net cash flows from investing activities

In FY2016, the Group recorded a net cash outflow of HKD6.33 million from investing activities. The cash outflow amounting to HKD12.85 million was arising from the payments for purchase of property, plant and equipment and intangible assets. It was partially offset by interest received of HKD7.63 million.

Net cash flows from financing activities

The Group recorded a net cash inflow from financing activities of HKD142.36 million in FY2016. The net cash inflow was caused by:

- (1) net proceeds from bank and other borrowings of HKD309.69 million;
- (2) increase in restricted bank deposits of HKD94.73 million;
- (3) net increase in amount due to related parties of HKD11.97 million;
- (4) interest paid of HKD205.22 million;
- (5) contributions from non-controlling shareholders of HKD169.58 million;
- (6) cash dividend paid to shareholders of HKD11.88 million;
- (7) cash dividend paid to a non-controlling shareholder of HKD14.55 million; and
- (8) payment of shares buy-back of HKD22.49 million.

Subsequent events

Nil.

- 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.

Following a series of acquisitions and integration in 2015, the operation and management scale of the Group further expanded in 2016, and the acquired projects were successfully restructured. Facing the fierce industry competition and volatile market condition, the Group seized market opportunities in 2016, studied and weighed the prevailing situation, and drove an organic growth with a “prudent, active and practical” development approach. In addition to achieving great outcomes in new business areas during the year, the Group has also been proactively capturing and exploring opportunities in new business sectors, including sponge city projects and river-basin ecological restoration projects etc.

Continuously rising environmental protection standards and increasingly stringent environmental law enforcement lead to the rapid growth of environmental protection related business, and sets up the golden era for the environmental protection enterprises. Since 2015, Chinese government successively launched various industrial policies, including the “Water Pollution Prevention and Control Plan” (《水污染防治行動計劃》) (the “Clean Water Action Plan”), the implementation of which further rationalizes the institutional mechanisms and leads the healthy development of the industry through strict environmental law enforcement and supervision, eliminating backward production capacity, adjusting industry structure, enhancing the industry access threshold and fully leveraging on market mechanisms (e.g., accelerating water tariff reformation and improving waste water treatment fee). The “Thirteenth Five-Year Plan on Ecological Protection” (《「十三五」生態環境保護規劃》) issued at the end of 2016 demonstrated the first-ever promotion of the construction of ecological civilization and environmental protection as the national-level strategy. With the support of national policies and intensifying environmental law enforcement, the industry’s growth potential will be further increased, and the market mechanism will in turn promote a healthy and rapid development of the industry.

Public-Private Partnership (“PPP”) projects were executed rapidly in 2016. The government proactively encouraged a transformation from government-led to market-oriented way of operation, being a model in which private enterprises participate in environmental protection. The promotion of PPP model leads to stricter requirements on environmental protection enterprises from various aspects.

With a change in the practice, the stricter supervision and the more stringent requirements, the uneven quality situation of the environmental water industry will gradually improve. There will be more mergers, acquisitions and reorganizations. With intensified industry competition, the weaker participants will be eliminated while the stronger ones will stay and maintain the leading position. The Group will leverage on advanced technology and improve its competitiveness in the industry. It will proactively explore new business areas and business pattern, while at the same time shoulder its social responsibility, so as to promote a stable business development through organic growth and mergers and acquisitions.

11. Dividend

(a) *Current financial year reported on*

Any dividend recommended for the current financial year reported on? Yes

Name of Dividend	Proposed Final
Dividend Type	Cash/Scrip (based on shareholder's election)
Dividend Amount	SGD0.0037 per ordinary share
Tax Rate	One-Tier Tax Exempt

China Everbright Water Limited Scrip Dividend Scheme will be applicable to the FY2016 final one-tier tax exempt dividend.

(b) *Corresponding year of the immediately preceding financial year*

Any dividend declared for the immediately preceding financial year? Yes

Name of Dividend	Final
Dividend Type	Cash/Scrip (based on shareholder's election)
Dividend Amount	SGD0.0035 per ordinary share
Tax Rate	One-Tier Tax Exempt

(c) *Date payable*

The directors have proposed a final dividend of SGD0.0037 per ordinary share, One-Tier Tax Exempt for FY2016 for approval by shareholders at the forthcoming annual general meeting to be convened in April 2017. Details on payment of cash dividend/crediting of shares will be announced in due course.

(d) *Books closure date*

Details on closure of books will be announced in due course.

12. If no dividend has been declared/recommended, 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 financial year, the Group does not have any general mandate from shareholders for interested person transaction.

**PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 and Half Year Results)**

14. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

Not applicable. The Group has only one operating segment.

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Not applicable.

16. A breakdown of revenue

	FY2016	FY2015	Increase/ -decrease
	HKD'000	HKD'000	
Revenue reported for first half year	1,325,737	946,144	40%
Net profit for first half year	187,522	220,548	-15%
Revenue reported for second half year	1,168,300	869,006	34%
Net profit for second half year	185,093	203,120	-9%

17. A breakdown of the total annual dividend (in dollar value) for the issuers' latest full year and its previous full year.

	FY2016	FY2015
	HKD'000	HKD'000
Ordinary	<u>52,344</u>	<u>52,304</u>

18. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive office or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement:-

There is no person occupying a managerial position in the Company or its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company for the financial years ended 31 December 2016 and 31 December 2015.

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

Not applicable.

20. Confirmation that the issuer has undertakings from all its directors and executive officers under Rule 720(1).

Pursuant to Rule 720(1) of the SGX Listing Manual, the Company has procured undertakings from all its directors and executive officers.

**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 China Everbright Water Limited (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 financial year ended 31 December 2016 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Wang Tianyi

Non-Executive Director and Chairman

23 February 2017