GREAT WATER

GREAT WATER HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability) Stock Code: 8196

2016
Annual Report

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This annual report is printed on environmentally friendly paper

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. XIE Yang *(Chairman & Chief Executive Officer)*
Mr. HE Xuan Xi

Non-executive Directors

Ms. GONG Lan Lan
Mr. SONG Xiao Xing

Independent Non-executive Directors

Ms. BAI Shuang
Mr. HA Cheng Yong
Mr. TSE Chi Wai

BOARD COMMITTEES

Audit Committee

Mr. TSE Chi Wai *(Chairman)*
Mr. HA Cheng Yong
Ms. BAI Shuang

Remuneration Committee

Mr. HA Cheng Yong *(Chairman)*
Ms. BAI Shuang
Mr. XIE Yang

Nomination Committee

Mr. XIE Yang *(Chairman)*
Ms. BAI Shuang
Mr. TSE Chi Wai

COMPLIANCE OFFICER

Mr. HE Xuan Xi

COMPANY SECRETARY

Mr. TSUI Kan Chun *(HKICS, HKICPA)*

AUTHORISED REPRESENTATIVES

Mr. XIE Yang
Mr. TSUI Kan Chun

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
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Guangzhou City
PRC

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Guangzhou Branch
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Tianhe District
Guangzhou City
PRC

REGISTERED OFFICE

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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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(Certified Public Accountants)

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COMPANY WEBSITE

www.greatwater.com.cn

GEM STOCK CODE

8196

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of the Company, it is my pleasure to present the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016.

ANNUAL REVIEW

The shares of the Company (the "**Shares**") were successfully listed on the GEM of the Stock Exchange on 9 December 2015 (the "**Listing**") by way of placing (the "**Placing**"). The Listing has enhanced the Group's profile and its future development potential in the domestic wastewater environmental protection industry and has provided the Group with additional avenues to raise capital for future expansion. The net proceeds raised have also strengthened the Group's operational capability.

As a result of the increasing domestic and overseas requirement for environmental protection in recent years, the Group has kept pace with the growth trend of the environmental protection industry by expanding its wastewater and drinking water treatment projects in 2016. Besides, by establishing a joint venture company (the "**JV Company**") with Best Well Ventures Limited ("**Best Well**") in the fourth quarter of 2016 and planning to provide operation services to a hazardous wastes treatment plant of Best Well in Shanghai, the Group's environmental protection business has turned over a new leaf.

For the year ended 31 December 2016, the revenue of the Group increased by approximately RMB12.3 million, or 7.4%, to approximately RMB179.3 million as compared to the year of 2015. Profit for the year amounted to approximately RMB38.2 million, representing an increase of approximately RMB21.3 million, or 125.9%, as compared to the year of 2015. Such increase was mainly due to (i) higher revenue from the engineering, procurement and construction projects ("**EPC Projects**"), where the Group acts as the contractor, who is responsible for the whole project from launch to final operational management for the project, and higher profit margin for EPC Projects and equipment projects ("**Equipment Projects**") where the Group acts as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for the project, of the Group resulting in the increase in the gross profit by approximately RMB16.0 million; (ii) the government grants in other income received by the Group from the government authorities of the People's Republic of China (the "**PRC**" or "**China**") in recognition of the Group's effort in technology innovation in Guangzhou, the PRC, for approximately RMB2.2 million; and (iii) fair value gains on investment properties recognised as other income of the Group of approximately RMB5.4 million.

OUTLOOK

The year of 2016 is a memorable year for China's environmental protection industry. On one hand, the PRC government, capitalizing on the efforts made in 2015, further strengthened regulations of environmental protection by issuing the 13th Five-Year Plan for National Eco-environmental Conservation《全國生態保護"十三五"規劃綱要》and the Action Plan on Prevention and Control of Soil Pollution《土壤污染防治行動計劃》, deliberating and approving in principle a draft amendment to the Water Pollution Prevention and Control Law《水污染防治法（修訂草案）》, formulating the Provisional Measures Regarding the Assessment of Action Plan on Prevention and Control of Water Pollution《水污染防治行動計劃實施情況考核規定（試行）》, amending certain provisions of Guideline on Scrutiny and Permission of Hazardous Waste Operating Unit《危險廢物經營單位審查和許可指南》and deciding to commence the second round of a nationwide survey on pollution sources in 2017.

On the other hand, the PRC government has stepped up its efforts in cracking down violations against environmental protection laws under the operation code-named "Storm of Environmental Protection" (「環保風暴」) and has since mid-2016 sent out the central environmental protection inspection teams to conduct environmental protection inspections in various provinces. According to official statistics, the number of irregularities in relation to environmental protection dealt with during the first round of environmental protection inspections already runs into tens of thousands, resulting in fines well over RMB200 million. At the same time, judging from the various measures taken by the PRC government, it is expected that environmental protection inspections will become more frequent.

In light of the above, the Group is of the view that the environment protection market in China will witness greater development potentials. The number of upgrading and transformation projects on environmental protection facilities and concentration environmental protection disposal projects is expected to rise substantially. Customers' demand for comprehensive environmental protection services will continue to increase and as a result, environmental protection technologies with higher efficiency and more energy conservation features will become more popular. Benefiting from the effect generated by the environmental protection inspections, outstanding enterprises in environmental protection industry will further consolidate their market positions. Strengthening cooperation among outstanding enterprises in environmental protection industry to come up with more sophisticated environmental protection technologies, developing more comprehensive environmental protection businesses, and providing customers with more comprehensive and effective environmental protection services will be the development trend of the environmental protection market in China.

In 2017, the Group, being a specialist in environmental protection services, will continue to consolidate its market position in some of its business segments by stepping up its efforts in developing traditional businesses such as industrial and municipal sewage treatment, water supply, soil remediation, etc. which include projects from new customers beyond Guangdong province. Meanwhile, the Group established a branch office in Shanghai in 2016 to explore the markets in eastern China, central China and northern China. The Group is confident that the above steps will facilitate further development of the Group's businesses.

On the other hand, the Group has also tapped into new segments of the environmental protection business through cooperation with other environmental protection companies. We formed the JV Company with Best Well in the fourth quarter of 2016 which is planning to provide operation services to a hazardous wastes treatment plant of Best Well, marking an important milestone in the Group's development of hazardous wastes treatment segment in China.

Furthermore, the Group is committing more resources to research and development for enhancement of its existing proprietary processing technologies and development of more environmental protection technologies to meet market demand in the future. At the same time, the Group is also in the process of upgrading its existing qualifications and obtaining further qualifications for carrying out different types environmental protection projects.

The Group believes that providing customers with more comprehensive and effective environmental protection services by diversifying into other environmental protection segments based on the achievements made in the Group's existing environmental protection businesses will be the Group's primary goal in future.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my sincere gratitude to the shareholders of the Company (the "**Shareholders**"), business partners, customers, suppliers and sub-contractors for their continued support to the Group. I would also like to express my heartfelt appreciation to the management and the staff for their diligence and valuable contribution throughout the year.

Xie Yang
Chairman

Guangzhou, the PRC
21 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of wastewater and drinking water treatment engineering services in the PRC. The main business of the Group is the provision of engineering services for wastewater and drinking treatment facilities. The Group acts as the contractor, who is responsible for the whole project from launch to final operational management, in EPC Projects, or as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for Equipment Projects, the Group is also engaged in other environmental protection projects ("**Other Environmental Protection Projects**"), provision of operating and maintenance services ("**O&M Projects**") for the customers in connection with the management of waste water treatment and drinking water treatment facilities, as well as consultation services in relation to the improvement of wastewater and drinking water treatment facilities of various constructions.

As a result of the increasing domestic and overseas requirement for environmental protection in recent years, the Group will keep pace with the growth trend of the environmental protection industry so as to proactively expand the environmental protection engineering services and operation businesses. The Group has set up an office in Shanghai in the first quarter of 2016 in order to expand the Group's business in central and northern regions of the PRC. As announced by the Company, the Group entered into a shareholders' agreement (the "**Shareholders' Agreement**") with Best Well on 30 September 2016 in relation to the establishment of the JV Company. Formation of the JV Company (together with its subsidiary, the "**JV Group**") was completed at the end of December 2016 and is under the progress of setting up the operating team and planning to provide operation services for a hazardous waste treatment plant of Best Well in Shanghai. For details of the formation and management of the JV Company, please refer to the announcement of the Company dated 30 September 2016.

For the year ended 31 December 2016, the revenue of the Group increased by approximately RMB12.3 million, or approximately 7.4%, to approximately RMB179.3 million as compared to the year of 2015. Profit for the year amounted to approximately RMB38.2 million, representing an increase of approximately RMB21.3 million, or approximately 125.9%, as compared to the year of 2015. Such increase was mainly due to (i) higher revenue from EPC Projects and higher profit margin for EPC Projects and Equipment Projects of the Group that increased the gross profit by approximately RMB16.0 million; (ii) the government grants of approximately RMB2.2 million received by the Group from the PRC government authorities in recognition of the Group's effort in technology innovation; and (iii) fair value gains on investment properties recognised as other income of the Group of approximately RMB5.4 million.

As at 31 December 2016, save for O&M Projects, the Group had the following uncompleted projects on hand: (i) 4 EPC Projects; (ii) 2 construction projects other than EPC Projects ("**Construction Projects**"); and (iii) 2 Equipment Projects, with an aggregate value of approximately RMB113.4million. The Directors expect that the abovementioned uncompleted projects on hand will be fully completed by the end of 2017.

OUTLOOK

The Group is of the view that the environment protection market in China will witness greater development potentials. The number of upgrading and transformation projects on environmental protection facilities and concentration environmental protection disposal projects is expected to rise substantially due to greater enforcement of the environmental laws and regulations by the PRC government. Customers' demand for comprehensive environmental protection services will continue to increase and, as a result, environmental protection technologies with higher efficiency and more energy conservation features will become more popular. Benefiting from the market effect generated by the environmental protection inspections, outstanding enterprises of environmental protection will further consolidate their positions. Strengthening cooperation among outstanding enterprises of environmental protection to come up with more sophisticated environmental protection technologies, developing more comprehensive environmental protection businesses and providing customers with more comprehensive and effective environmental protection services will be the development trend of the environmental protection market in China.

In 2017, the Group, being a specialist in environmental protection services, will continue to consolidate its market position in some of its business segments by stepping up its efforts in developing traditional businesses such as industrial and municipal sewage treatment, water supply, soil remediation, etc. which include projects from new customers beyond Guangdong province. Meanwhile, the Group established a branch office in Shanghai in 2016 to explore the markets in eastern China, central China and northern China. The Group is confident that the above steps will facilitate further development of the Group's businesses.

On the other hand, the Group has also tapped into new segments of the environmental protection business through cooperation with other environmental protection companies. The Group formed the JV Company with Best Well in the fourth quarter of 2016 which was planned to provide operation services to a hazardous wastes treatment plant of Best Well in Shanghai, marking an important milestone in the Group's development of hazardous wastes treatment segment in China.

Furthermore, the Group is committing more resources to research and development for enhancement of its existing proprietary processing technologies and development of more environmental protection technologies to meet market demand in future. At the same time, the Group is also in the process of upgrading its existing qualifications and obtaining further qualifications for carrying out different types of environmental protection projects.

The Group believes that providing customers with more comprehensive and effective environmental protection services by diversifying into other environmental protection segments based on the achievements made in the Group's existing environmental protection businesses will be the Group's primary goal in future.

FINANCIAL REVIEW

Operating revenue

For year ended 31 December 2016, the Group's operating revenue amounted to approximately RMB179,329,000, representing an increase of approximately 7.4% or RMB12,344,000 over the corresponding period in 2015.

EPC Projects and Construction Projects

For EPC Projects, the Group assumes the role of main contractor in charge of overall project management of building a treatment plant from initiation to commissioning for a predetermined contract amount. As an EPC Project contractor, the Group provides engineering design of the treatment facilities, procures necessary materials and appoint sub-contractors to build the facilities. The Group also engages in Construction Projects related to other environmental protection areas (such as soil remediation project and flue gas treatment project, involving the provision of engineering and procurement services for the project owner).

— *Revenue relating to EPC Projects*

For the year ended 31 December 2016, the revenue from EPC Projects relating to wastewater and drinking water treatment projects under construction and related business was approximately RMB48,949,000 (2015: approximately RMB5,840,000), representing an increase of approximately 738.2% or RMB43,109,000 as compared to the corresponding period in 2015. The increase in revenue from EPC Projects was primarily attributable to the recognition of an aggregate revenue in respect of three large sized water treatment projects of approximately RMB47.8 million in the second half of 2016. These three projects refer to (i) the water treatment project in Vietnam, which was obtained at the end of 2015 with a contract value of approximately RMB10.0 million; (ii) the water treatment project in Guangdong province, the PRC, which was obtained in the third quarter of 2016 with a contract value of approximately RMB23.1 million; and (iii) the water treatment project in Guangxi, the PRC, which was obtained in the fourth quarter of 2016 with a contract value of approximately RMB63.1 million. All those projects are still in progress and the remaining works of the projects in Vietnam and Guangdong province are estimated to be completed in second quarter of 2017 and the project in Guangxi is estimated to be completed by the end of 2017.

— *Revenue relating to Construction Projects*

For the year ended 31 December 2016, the revenue from the segment of Construction Projects, relating mainly to Other Environmental Protection Projects, was approximately RMB10,735,000 (2015: approximately RMB12,041,000), representing a decrease of approximately 10.8% or RMB1,306,000 compared to the corresponding period in 2015. The revenue of the year of RMB10,735,000 was mainly attributable to four Construction Projects newly obtained during the year, with a total contract value of approximately RMB14.6 million. Among those Construction Projects, two of which have already been completed and the two other projects are estimated to be completed in the second quarter of 2017.

Equipment Projects

For Equipment Projects, the Group mainly provides procurement services to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, the Group's technical team often needs to work closely with the customer in identifying, evaluating and selecting different equipment options before the procurement team comes into play.

For the year ended 31 December 2016, the revenue from the segment of Equipment Projects amounted to approximately RMB112,929,000 (2015: approximately RMB144,275,000), representing a decrease of approximately 21.7% or approximately RMB31,346,000 as compared to the corresponding period in 2015. The revenue for the year was attributable to ten Equipment Projects with an aggregate contract value of RMB151.4 million. As at 31 December 2016, the Group had two Equipment Projects on hand which have not been completed, with an aggregate value of works to be completed amounting to approximately RMB31.3 million. They are estimated to be completed in the third quarter and the fourth quarter of 2017, respectively.

Others

The revenue from segments of others included those attributable to O&M Projects and technical advisory services. As at 31 December 2016, the Group had one wastewater treatment O&M Project and four drinking water treatment O&M Projects on hand.

For the year ended 31 December 2016, the income from maintenance services amounted to approximately RMB6,716,000 (2015: approximately RMB4,829,000), representing an increase of approximately 39.1% or approximately RMB1,887,000 as compared to the corresponding period in 2015. The increase was mainly due to the increase in revenue from O&M Projects of approximately RMB107,000 and increased in revenue from technical advisory project of approximately RMB1,780,000 during the year. Revenue from technical advisory projects was mainly derived from provision of technical solutions to a customer in respect of hazardous wastes treatments in the third quarter of 2016, which had a contract value of approximately RMB3,302,000 and other two small size technical service contracts with total contract value of approximately RMB472,000.

Other income and gains

For the year ended 31 December 2016, other income and gains amounted to approximately RMB10,249,000 (2015: approximately RMB3,012,000), representing an increase of approximately 240.3% or approximately RMB7,237,000 as compared to the corresponding period in 2015. The increase was mainly due to the receipt of government grants from the PRC government authorities in recognition of the Group's effort in technology innovation in Guangzhou, the PRC, of approximately RMB2,175,000, and the fair value gains on investment properties of approximately RMB5,361,000.

Cost of sales

For the year ended 31 December 2016, the cost of sales of the Group amounted to approximately RMB119,212,000 (2015: approximately RMB122,855,000), representing a decrease of approximately 3.0% or approximately RMB3,643,000 as compared to the corresponding period in 2015. The decrease in cost of sales was mainly due to decrease in the material costs, partly set off by the increase in subcontracting costs incurred during the year.

The material costs decreased from approximately RMB108,325,000 for the year ended 31 December 2015 to approximately RMB68,728,000 for the year ended 31 December 2016. The decrease was mainly attributable to (i) decrease in cost of equipment sourced for Equipment Projects, despite a higher mark-up charged for these projects during the year; and (ii) the greater contract size of EPC Projects and Construction Projects in which the Group participated in the second half of 2016, where most of the costs incurred for these projects were subcontracting costs as they were still under the construction phase during the period.

As a result of the foregoing, the cost of subcontracting increased from approximately RMB11,129,000 for the year ended 31 December 2015 to approximately RMB47,238,000 for the year ended 31 December 2016.

Gross profit

For the year ended 31 December 2016, the Group achieved gross profit of approximately RMB60,117,000 (2015: approximately RMB44,130,000), representing an increase of approximately 36.2% or approximately RMB15,987,000 as compared to the corresponding period in 2015. The increase was mainly due to higher revenue from EPC Projects and higher profit margin for both EPC Projects and Equipment Projects of the Group, resulting in the increase of the Group's gross profit margin from 26.4% in 2015 to 33.5% in 2016.

Selling and distribution expenses

For the year ended 31 December 2016, selling and distribution expenses of the Group amounted to approximately RMB2,521,000 (2015: approximately RMB1,755,000), representing an increase of approximately 43.6% or approximately RMB766,000 as compared to the corresponding period in 2015. The increase was mainly due to (i) increase in salary and welfare of approximately RMB229,000; (ii) increase in repair and maintenance fee incurred for those completed EPC Projects and Equipment Projects of approximately RMB267,000; and (iii) increase in advertising and promotion fee of approximately RMB120,000.

Administrative expenses

For the year ended 31 December 2016, the administrative expenses of the Group amounted to approximately RMB21,158,000 (2015: approximately RMB24,312,000), representing a decrease of approximately 13.0% or approximately RMB3,154,000 as compared to the corresponding period in 2015. The decrease in the administrative expenses was mainly attributed to the recognition of non-recurring listing expenses of approximately RMB9,923,000 for the year of 2015. However, such decrease was set off largely by the increase in staff remuneration and staff welfare of approximately RMB3,942,000 and research and development expenses of approximately RMB1,989,000 for the year ended 31 December 2016.

Profit for the year

For the year ended 31 December 2016, the profit for the year amounted to approximately RMB38,221,000 (2015: RMB16,917,000), representing an increase of approximately RMB21,304,000 or 125.9% as compared to the corresponding period in 2015. The increase was mainly due to (i) increase in gross profit by approximately RMB15,987,000 as discussed above; (ii) the receipt of government grants in other income of the Group from the PRC government authorities in recognition of the Group's effort in technology innovation of approximately RMB2,175,000; and (iii) fair value gains on investment properties in other income of the Group for approximately RMB5,361,000.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil), in order to cope with the future business development of the Group. There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Shares of the Company were successfully listed on the GEM of the Stock Exchange on 9 December 2015, since then there was no change in the capital structure of the Group. The capital of the Company comprises only ordinary shares.

As at 31 December 2016, the total equity attributable to the Shareholders was approximately RMB177,203,000 (2015: approximately RMB135,166,000). The Group continued to maintain a strong financial position with cash and cash equivalents amounted to approximately RMB124,971,000 (2015: approximately RMB111,792,000). The Group's net current asset was approximately RMB146,594,000 (2015: approximately RMB111,300,000). Based on the Group's existing cash and cash equivalents on hand and bank facilities available to the Group, the Group has adequate financial resources to fund the working capital required for its business operations in the coming year. There was no hedging for any financial instruments.

During the year ended 31 December 2016, the Group's cash and cash equivalents were mainly denominated in RMB, Hong Kong dollars and US dollars and placed in reputable financial institutions as deposits with maturity dates falling within one year. This is in line with the Group's treasury policy to maintain liquidity of its funds and will continue to contribute stable income to the Group.

As at 31 December 2016, the Group had general banking facilities amounted to approximately RMB88,890,000. The total borrowing drawn down from our banking facilities as at 31 December 2016 amounted to RMB40,000,000 (2015: RMB15,000,000). The banking facilities were pledged by the Group's land and buildings. For details of the pledged assets, please refer to the paragraph headed "Charges on the Group's Assets" below.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio (being the net debt of the Group divided by its total capital plus net debt) was -7% (2015: -29%). Net debt of the Group includes an interest-bearing bank borrowing, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

As disclosed in the paragraph under the section headed "Management discussion and analysis — Business review" in this report, the Group formed the JV Company with Best Well in the fourth quarter of 2016. The JV Group with a total capital commitment of RMB50,000,000 (the "**Capital Commitment**") were formed to develop and promote business in the hazardous wastes treatment industry in the PRC pursuant to the Shareholders' Agreement. Upon establishment of the JV Company in December 2016, Strong Wave Group Limited ("**Strong Wave**"), a direct wholly-owned subsidiary of the Company, and Best Well held 92% and 8% equity interests in the JV Company, respectively. For details of the formation and management of the JV Group, please refer to the announcement of the Company dated 30 September 2016. Save as disclosed above, there was no significant investment held by the Group as at 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2016.

COMMITMENTS

The contractual operating commitments of the Group were primarily related to the purchases of items of equipment for projects. As at 31 December 2016, the Group's contractual operating commitments amounted to approximately RMB77,305,000 (2015: approximately RMB50,082,000).

As at 31 December 2016, there was capital commitment amounting to approximately RMB46,000,000 for the Group (2015: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed above and in the prospectus of the Company dated 30 November 2015 (the "**Prospectus**"), the Group does not have other plans for material investments and capital assets as at the date of this report.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

The Group's building, investment properties and leasehold land were pledged to secure general banking facilities granted to the Group. Details of charges on the Group's assets are set out in notes 13, 14 and 15 to the consolidated financial statements, respectively.

FOREIGN EXCHANGE EXPOSURE

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the year ended 31 December 2016, the Group did not hedge any exposure to foreign exchange risk.

ADVANCES TO AN ENTITY

As at 31 December 2016, the Group did not provide any advances to any entity outside the Group.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDERS

As at 31 December 2016, there was no pledging of Shares by the controlling Shareholders (the "**Controlling Shareholders**").

LOAN AGREEMENTS OF THE GROUP

As at 31 December 2016, the Group did not enter into any loan agreement with covenants relating to specific performance of the Controlling Shareholders.

During the year of 2016, the Group did not breach any terms of agreement in respect of any loan that is significant to the Group's operations.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

As at 31 December 2016, the Group did not provide any financial assistance and guarantees to affiliated companies of the Group.

SHARE OPTION SCHEME

As at 31 December 2016, the Group did not adopt any share option scheme.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group employed 88 employees (2015: 70 employees). Employee costs amounted to approximately RMB14.7 million for the year ended 31 December 2016 (2015: approximately RMB9.8 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is determined based on their performance.

TRAINING AND SUPPORT FOR DIRECTORS AND EMPLOYEES

The Company recognises the importance of keeping the Directors updated with latest information of duties and obligations of a director of a company the shares of which are listed on the Stock Exchange and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. As part of the continuous professional development program, the Company has also kept the Directors updated of any material changes in the GEM Listing Rules and corporate governance practices from time to time. Directors are provided with reading materials summarising the duties and responsibilities in acting as directors from time to time to keep the Directors abreast of such duties and responsibilities.

Periodical training will be provided to the employees of the Group in order to maintain and enhance their professional and technical skills. Those trainings will be organised internally by the Group or will involve course and forums organised by external parties.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The principal business objective of the Group is to further strengthen its position in the wastewater treatment engineering services in the PRC in order to achieve sustainable growth in its business and create long term Shareholders' value. An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the date of the Listing to 31 December 2016 is set out below:

Business strategies	Implementation plan	Sources of funding	Actual progress up to 31 December 2016
(i) Strengthen the Group's market position	Identify new office locations in central and northern regions of the PRC	Listing proceeds of approximately HK$0.1 million	After conducting market research and analysis, the Group set up its branch office in Shanghai (the "**Shanghai Branch**") in the first quarter of 2016 in order to expand its coverage of the environmental protection markets in central and northern regions of the PRC. The listing proceeds of approximately HK$0.8 million have been fully utilised in 2016 as set up costs of the Shanghai Branch, including employees' salaries, office rental payments and office expenses.
	Open a new office in central region of the PRC	Listing proceeds of approximately HK$0.5 million	
	Recruit marketing and administrative staff	Listing proceeds of approximately HK$0.2 million	
	Purchase an office premises in north region of the PRC	Listing proceeds of approximately HK$10.5 million	The listing proceeds of approximately HK$10.5 million have not being utilised as at 31 December 2016. Great Water Environmental Technology (Shanghai Company Limited (建禹環保科技(上海)有限公司) (the "**Great Water Shanghai**"), a non-wholly owned subsidiary of the Company, had identified office premises in Shanghai and had been negotiating the terms of the sale and purchase agreement with the premises developer at the end of 2016. Great Water Shanghai has agreed to purchase such office premises in Shanghai for an aggregate consideration of approximately RMB40,000,000 in January 2017, details of which are set out in the announcement of the Company dated 18 January 2017 and paragraph headed "Events after 31 December 2016" below. The listing proceeds of approximately HK$10.5 million have been fully utilised as at the date of this report.

Business strategies	Implementation plan	Sources of funding	Actual progress up to 31 December 2016
	Participate in national and regional industry events to identify business opportunities and invite potential customers to visit the Group's completed projects	Listing proceeds of approximately HK$0.5 million	The Group launched several wastewater environmental business promotional activities and invited potential customers to visit the Group's completed projects during the year ended 31 December 2016. The listing proceeds of approximately HK$0.5 million have been fully utilised in 2016 as related expenses of these activities, such as accommodation and transportation expenses for related employees and potential customers.
(ii) Expand the Group's soil remediation project business	Participate in national and regional industry events to identify business opportunities and invite the Group's potential customers to visit the Group's completed projects	Listing proceeds of approximately HK$1.4 million	The Group launched several soil remediation business promotional activities such as joining soil remediation industrial conferences organised by local governments and visiting leading soil remediation companies for technical exchange. We also invited potential customers to visit the Group's completed projects in 2016. The listing proceeds of approximately HK$0.8 million have been utilised in 2016 as related expenses of these activities, such as accommodation and transportation expenses for related employees and customers. The remaining proceeds of HK$0.6 million are expected to be utilised in 2017.
(iii) Enhance the Group's research and development capabilities	Identify equipment and machinery for the Group's research and development laboratory	Internal resources of the Group	The Group has drawn up a general proposal for enhancing the research and development capabilities of the laboratory in the Guangzhou headquarters. The upgrading of the research and development facilities is in progress as planned.
	Purchase of laboratory equipment and testing materials for performing pilot runs: ozone generation equipment, air compressors, air filters, metres and pumps and thermo reactor, heat exchanger, vacuum pumps, and filtration system	Listing proceeds of approximately HK$7.5 million	Listing proceeds of approximately HK$7.5 million have been fully utilised in purchasing laboratory equipments and research and development materials for laboratory tests and pilot runs in 2016.

Business strategies	Implementation plan	Sources of funding	Actual progress up to 31 December 2016
(iv) Upgrade the Group's qualification in construction and design engineering	Initial planning	Internal resources of the Group	The planning stage has been completed and the implementation of the plan is in progress as planned.
	Recruit additional qualified professionals and provide relevant training/course to the Group's existing engineering and technical staff	Listing proceeds of approximately HK$1.0 million	A number of experienced engineering and technical staff have been recruited in 2016 in order to upgrade the Group's qualification in construction and design engineering. The listing proceeds of approximately HK$1.0 million have been fully utilised in 2016 for salaries and training costs of these staff.
(v) Fund the working capital for EPC Projects	Fund the cashflow deficit for projects in the Group's pipeline, including a wastewater EPC Project to be entered into with a brand new PRC textile manufacturer in Vietnam	Listing proceeds of approximately HK$12.0 million	The listing proceeds of HK$12.0 million have been fully utilised to the fund the EPC Project in Vietnam in 2016.
	Fund the cashflow deficit for projects in the Group's pipeline, including an EPC Project to be entered into with a textile manufacturer to build an industrial wastewater treatment facility in Dongguan	Listing proceeds of approximately HK$5.6 million	The listing proceeds of HK$5.6 million have been fully utilised to the fund the Dongguan EPC Project in 2016.

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK$48.7 million, which were based on the placing price of HK$0.96 per share and the actual expenses related to the Listing. After the Listing, these proceeds were and will be used for the purposes in accordance with the future plans as set out in the Prospectus.

The net proceeds from the Placing from the date of the Listing to 31 December 2016 were used as follows:

	Planned use of proceeds as shown in the Prospectus from the date of Listing to 31 December 2016 *HK$'000*	**Actual use of proceeds from the date of the Listing to 31 December 2016** *HK$'000*	**Unutilised amount as at 31 December 2016** *HK$'000*
Strengthen the Group's market position	11,800	1,300	10,500
Expand the Group's soil remediation project business	1,400	800	600
Enhance the Group's research and development capabilities	7,500	7,500	–
Upgrade the Group's qualification in construction and design engineering	1,000	1,000	–
Fund the working capital for EPC Projects	17,600	17,600	–
	39,300	28,200	11,100

Notes:

(a) The unutilised proceeds are deposited in a licensed bank in Hong Kong.

(b) Please refer to the section headed "Comparison of business objectives with actual business progress" in this report for the update of the actual progress and the expected timing for utilisation of net proceeds.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

BUSINESS REVIEW

The business performance of the Group for the year ended 31 December 2016 and the future development of the Group's business are set out in the paragraphs headed "Business review" and "Outlook" respectively under "Management discussion and analysis" section in this report.

An analysis of the Group's performance during the year ended 31 December 2016 using financial performance indicators is provided in the section headed " Management discussion and analysis" in this report.

CORPORATE REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 15 March 2015.

Pursuant to a reorganisation ("**Reorganisation**") to rationalise the structure of the Group in preparation for the Listing on the GEM of the Stock Exchange, the Company became the holding company of its subsidiaries now comprising the Group on 10 July 2015.

The Shares were listed on GEM on 9 December 2016 by the way of Placing.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the environmental protection business. Details of the Group's subsidiaries as at 31 December 2016 are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 and the financial position of the Group at that date are set out in the consolidated statement on pages 54 to 56.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited financial statement is set out on page 114. The summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on pages 57 to 58 and on page 113, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2016 in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

The Group's industrial building is situated in Guangzhou, the PRC, and is used for office purposes or is leased to independent third parties for rental purposes. The portion used for office purpose by the Group is stated at cost less accumulated depreciation as the buildings in property, plant and equipment. The remaining portion is stated in fair value as investment properties subsequent to initial recognition. Roma Appraisals Limited, has valued the property interests of the Group at RMB41.6 million (including portions of the buildings and investment properties) as at 31 December 2016. During 2016, the Group transferred certain investment properties to owner-occupied property for its own operation needs. Details of the investment properties are set out in note 14 to the consolidated financial statements.

As at 31 December 2016 , the valuation amounts of the property interests of the Group were RMB41.6 million, in which the valuation amounts of the Group's building for own use were RMB20.8 million. The Group's building for own use are currently booked at cost. If such assets were recorded based on the valuation amounts as at 31 December 2016, the difference of accumulated depreciation between the two types of calculation was approximately RMB165,000 for the period from 1 January 2016 to 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the Shareholders. As at 31 December 2016, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB110.0 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, sales to the Group's largest customer accounted for 21.1% (2015: 28.9%) of the total revenue. For the year ended 31 December 2016, the percentage of revenue derived from the Group's five largest customers in aggregate was 72.6% (2015: 79.7%).

For the year ended 31 December 2016, purchases from the Group's largest supplier accounted for 21.9% (2015: 5.9%) of the total cost of sales. For the year ended 31 December 2016, purchases from the Group's five largest suppliers in aggregate accounted for 52.8% (2015: 25.0%) of our total cost of sales.

None of the Directors or any of their respective close associates or any Shareholders which to the Directors' best knowledge, own more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers and suppliers during the year ended 31 December 2016.

PRINCIPAL RISKS AND UNCERTAINTIES

The 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 the Group's businesses. The following are the key risks and uncertainties identified by the Group.

Government Policies Risk

The Company is in an industry where regulatory standards play a critical role in influencing the demand for the services. The Company has benefited in the past from the increasing awareness of environmental protection, the heightened wastewater treatment standards in the PRC and the recent PRC economic stimulus plan to increase government spending on infrastructure, including wastewater treatment facilities. For example, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which was amended in 2014 requires entities which cause environmental pollution and other public hazards to adopt effective measures to prevent and control the pollution and harm done to the environment, details of which are set out in the section headed "Laws and Regulations — Laws and Regulations on Project Operation — Environmental Protection" in the Prospectus. Further, according to the Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》, or《水十條》) promulgated and implemented in 2015, factories in a number of targeted industrial areas are required to complete the construction of centralised wastewater treatment facilities before end of year 2017. However, there can be no assurance that the Company will continue to benefit from these PRC standards, economic stimulus plan, regulations and government policies in the future if there is any change, suspension or withdrawal of such regulations and government policies in the future. Moreover, the PRC government's intentions or announcements should not be regarded as an indication of the future prospects of the industry or the future performance of the Company. Any changes in legislative, regulatory or industrial requirements and government policies in places where operates in and outside the PRC may render certain of its wastewater treatment engineering services redundant or obsolete. Acceptance of new wastewater treatment engineering services may also be affected by the adoption of new government regulations requiring stricter standards. The ability to anticipate changes in regulatory standards and government policies and to develop and introduce water and wastewater treatment processes to keep up with such new regulatory standards and government policies will be significant factors in the Company's ability to grow and to remain competitive.

If the treatment facilities constructed under the EPC Projects or the equipments procured by the Company fail to comply with these standards, laws and regulations, the customers may be exposed to penalties or fines from the regulatory authorities and the Company may be subject to claims, litigation and legal proceedings for breach of customers' requirements and their technical specifications. Such events could materially and adversely affect the business, financial condition and results of operations of the Company.

Furthermore, there can be no assurance that the regulatory requirements for operating in the wastewater treatment engineering industry (including without limitation technological requirements, capital base and qualifications) will not be changed in the future. If there is any such change to the regulatory requirements, the Group may incur additional costs in complying with the new requirements which may adversely affect the business, results of operation and financial condition.

Intense Competition Risk

Competition in the market for wastewater treatment engineering services is intense. The Company expects to face more intense competition from existing competitors and new market entrants in the future. The Company competes with a variety of companies, some of which may have longer operating histories, more established reputations for the type of project, better technical expertise, better customer service, better pricing, stronger relationships with municipal governments and industrial companies, greater familiarity with local market conditions, larger clientele, larger teams of professional staff and greater financial, technical, marketing and other resources and may be in a better position to develop and expand their range of services and market share. The competitors of the Company may, from time to time, engage in aggressive pricing to gain market share and the Company may be under pressure to offer comparable pricing to maintain its competitiveness. In addition, companies which currently do not compete directly with the Company may expand their business to offer competing wastewater treatment engineering services and the Company cannot give any assurance that they will not compete with it in the future. There is no assurance that the Company will be able to effectively compete with its competitors in winning such projects in the future. If the Company fails to compete successfully against existing or future competitors, the business, financial condition and operating results will be materially and adversely affected.

Risks arising from the Expansion of New Environmental Protection Business

We have developed a professional image as a wastewater and drinking water treatment engineering service provider in the PRC. Recently, we have also expanded to other fields of environmental protection. For example, we formed the JV Company with Best Well in the fourth quarter of 2016 and planned to provide operation services to a hazardous wastes treatment plant of Best Well. However, there can be no assurance that we can remain profitable in these new business areas. Should we fail to effectively meet the challenges arising from these new business areas, such as (i) shortage of technical staff; (ii) significant technical updates; (iii) intensifying competition; and (iv) significant change in relevant regulations and/or government policies in the new business areas, our business, financial condition and results of operations may be materially and adversely affected.

Change in Preferential Tax Treatment Risk

Under the PRC Enterprise Income Tax (the "**EIT**") Law, enterprises in the PRC are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Guangzhou Great Water Environmental Protection Company Limited* (廣州中科建禹環保有限公司), being our operating subsidiary in the PRC, was subject to 15% enterprise income tax rate during the year ended 31 December 2016 as a result of its accreditation as a High and New Technology Enterprise by the Guangdong Provincial Science and Technology Department and relevant authorities in the PRC. Our current High and New Technology Enterprises certificate was renewed in October 2015 and is effective for a period of three years.

There is no assurance that the current policies in the PRC with respect to the preferential tax treatment the Company currently enjoys will not be unfavourably changed or discontinued, or that the approval for such preferential tax treatment will be granted to the Company in a timely manner. In the event that the termination or expiration of the preferential tax treatment, or the imposition of additional taxes to the Company, its business, financial conditions and results of operations could be adversely affected.

Manpower and Retention Risk

The Company 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 the Company. The Company will provide attractive remuneration package to suitable candidates and personnel.

ENVIRONMENTAL POLICY AND PERFORMANCE

Since the establishment in 2001, the Company has been working in the environmental protection industry in China for 15 years. Emerging from the wastewater and drinking water treatment engineering business, the Group is now gradually expanding to a wider and more comprehensive environmental protection business.

Throughout all these years, sustainability is regarded as an important concept in the Company's corporate value. Guided by the corporate value and with the aid of a thorough Integrated Management System (the "IMS"), which was certified with the international environmental management system ISO14001:2015 and the quality management system ISO9001:2015 standards in 2016, the Company is not only pursuing continuity in business development, but also, most importantly, contributing to a better environment for the Group and the next generation.

The Company's mission is to create positive impacts to the environment in China. To achieve this, as an environmental protection engineering services company in China, the Company aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing environmental protection solutions to customers.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the GEM. Compliance procedures are put in place to ensure that the Group's establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2016, the Company has complied with all the relevant laws and regulations in the PRC and Hong Kong.

KEY RELATIONSHIPS

Employees

The Company recognises that employees are valuable assets to the Group. Thus the Group provides competitive remuneration package, as well as on-the-job training and development opportunities to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group has also put in place the human resource policy which serves to safeguard terms and conditions of employment as well as the rights and benefits of the employees.

Suppliers and sub-contractors

The Company has developed long-standing relationships with a number of suppliers and sub-contractors and the Company take great care to ensure that they share its commitment to quality and ethics. The Company carefully selects its suppliers and sub-contractors and assesses them as the basis of various criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and constructions for the projects of the Company. The Company also require them to comply with its anti-bribery policy.

Customers

The Company is committed to be a high quality environmental service provider to its customers. As such, the Company is active in staying connected with its customers in order to find out about customers' needs and expectation. The Company maintains a customers database and has ongoing communications with its current and potential customers through various channels like having face to face meetings and inviting customers to attend site visits to inspect the work-in-progress and finished projects.

DIRECTORS

The Directors during the year under review and up to the date of this report were as follows:

Executive Directors

Mr. Xie Yang *(Chairman & Chief Executive Officer)*	(appointed on 25 March 2015 and being re-elected on 3 May 2016)
Mr. He Xuan Xi	(appointed on 27 May 2015 and being re-elected on 3 May 2016)

Non-executive Directors

Ms. Gong Lan Lan	(appointed on 25 March 2015 and being re-elected on 3 May 2016)
Mr. Song Xiao Xing	(appointed on 25 March 2015 and being re-elected on 3 May 2016)

Independent Non-executive Directors

Ms. Bai Shuang	(appointed on 24 November 2015 and being re-elected on 3 May 2016)
Mr. Ha Cheng Yong	(appointed on 24 November 2015 and being re-elected on 3 May 2016)
Mr. Tse Chi Wai	(appointed on 24 November 2015 and being re-elected on 3 May 2016)

Pursuant to the Company's articles of association (the "**Articles of Association**"), one-third of the Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and continuing thereafter until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service agreement with the Company for a term of three years commencing from the date of the Listing, provided that either the Company or the non-executive Directors and the independent non-executive Directors may terminate such appointment at any time by giving at least three months' notice in writing to the other.

Save as aforesaid, none of the Directors proposed for re-election at the AGM of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

There was no transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding companies or, its subsidiaries, and its controlling shareholders or any of its subsidiaries was a party subsisted at the end of the year under review or at any time during the period from the date of the Listing to 31 December 2016, and no Director or an entity connected with the Director is or was materially interested either directly or indirectly in any such transaction, arrangement or contract.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 5.09 under the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the period from the date of the Listing to 31 December 2016.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "**Remuneration Committee**") in compliance with the GEM Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration policy and other remuneration related matters, including benefits-in-kind and other compensation payable to the Directors and senior management of the Company.

Under the remuneration policy of the Company, the Remuneration Committee will consider factors such as corporate and individual performance, salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group in assessing the amount of remuneration payable to the Directors and senior management.

NON-COMPETITION UNDERTAKINGS

Each of Mr. Xie Yang, Mr. Song Xiao Xing, Ms. Gong Lan Lan, Perfect Wave Holdings Limited, Oceanic Expert Investments Limited, The Thinker Global Limited, Waterman Global Limited, Topman Ventures Limited and Great Time Limited (collectively, the "**Covenanters**") has entered into a deed of non-competition (the "**Deed of Non-Competition**") on 24 November 2015 in favour of the Company, pursuant to which the Covenanters have undertaken, jointly and severally, to the Company that they would not, and that their close associates (except any member of the Group) would not, during the restricted period set out below directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the existing core business of the Group (the "**Restricted Business**"). The "restricted period" stated in the Deed of Non-Competition refers to the period during which (i) the Shares remain listed on the Stock Exchange; (ii) the Covenanters and their close associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of the Company; and/or (iii) the Covenanters remain as a director of any member of the Group. Details of the Deed of Non-Competition are set out in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the Controlling Shareholders nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2016.

DISCLOSURE OF INTERESTS

Interests and short positions of Directors and Chief executive in the Shares, underlying shares and debentures of the Group and its associated corporations

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in the Shares

Name of director	Capacity	Number of Ordinary Shares *(Note 1)*	Approximate percentage of the total number of Shares in issue
Mr. Xie Yang *(Note 2)*	Interest in controlled corporation	91,350,000 (L)	30.45%
Ms. Gong Lan Lan *(Note 3)*	Interest in controlled corporation	67,117,500 (L)	22.37%
Mr. Song Xiao Xing *(Note 4)*	Interest in controlled corporation	44,032,500 (L)	14.68%

Notes:

1. The letter "L" denotes a long position.

2. These Shares are owned by Oceanic Expert Investments Limited which is wholly-owned by Perfect Wave Holdings Limited, the entire issued share capital of which is in turn beneficially owned by Mr. Xie Yang. Accordingly, Mr. Xie Yang is taken or deemed to be interested in the 91,350,000 Shares held by Oceanic Expert Investments Limited by virtue of the SFO.

3. These Shares are owned by Waterman Global Limited which is wholly-owned by The Thinker Global Limited, the entire issued share capital of which is in turn beneficially owned by Ms. Gong Lan Lan. Accordingly, Ms. Gong Lan Lan is taken or deemed to be interested in the 67,117,500 Shares held by Waterman Global Limited by virtue of the SFO.

4. These Shares are owned by Great Time Ventures Limited which is wholly-owned by Topman Ventures Limited, the entire issued share capital of which is in turn beneficially owned by Mr. Song Xiao Xing. Accordingly, Mr. Song Xiao Xing is taken or deemed to be interested in the 44,032,500 Shares held by Great Time Ventures Limited by virtue of the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

The interests of substantial Shareholders and the interests and short position of other persons in the Shares and underlying Shares

As at 31 December 2016, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name	**Capacity**	**Number of Ordinary Shares** *(Note 1)*	**Approximate percentage of the issued share capital**
Oceanic Expert Investments Limited *(Note 2)*	Beneficial owner	91,350,000 (L)	30.45%
Perfect Wave Holdings Limited *(Note 2)*	Interest in controlled corporation	91,350,000 (L)	30.45%
Waterman Global Limited *(Note 3)*	Beneficial owner	67,117,500 (L)	22.37%
The Thinker Global Limited *(Note 3)*	Interest in controlled corporation	67,117,500 (L)	22.37%
Great Time Ventures Limited *(Note 4)*	Beneficial owner	44,032,500 (L)	14.68%
Topman Ventures Limited *(Note 4)*	Interest in controlled corporation	44,032,500 (L)	14.68%
Woody Industrial Limited *(Note 5)*	Beneficial owner	22,500,000 (L)	7.50%
Acute Capital Investments Limited *(Note 5)*	Interest in controlled corporation	22,500,000 (L)	7.50%
Mr. Yang Chen Kuo *(Note 5)*	Interest in controlled corporation	22,500,000 (L)	7.50%

Notes:

1. The letter "L" denotes a long position.

2. Mr. Xie Yang beneficially owns the entire issued share capital of Perfect Wave Holdings Limited which in turn wholly owns Oceanic Expert Investments Limited which held 91,350,000 Shares.

3. Ms. Gong Lan Lan beneficially owns the entire issued share capital of The Thinker Global Limited which in turn wholly owns Waterman Global Limited which held 67,117,500 Shares.

4. Mr. Song Xiao Xing beneficially owns the entire issued share capital of Topman Ventures Limited which in turn wholly owns Great Time Ventures Limited which held 44,032,500 Shares.

5. Mr. Yang Chen Kuo beneficially owns the entire issued share capital of Acute Capital Investments Limited which in turn wholly owns Woody Industrial Limited which held 22,500,000 Shares.

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

INTERESTS OF COMPLIANCE ADVISER

As at 31 December 2016, as notified by the Company's compliance adviser, Shenwan Hongyuan Capital (H.K.) Limited (the "**Compliance Adviser**"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 24 November 2015, neither the Compliance Adviser nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company had established its audit committee (the "**Audit Committee**") on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. Details of the role and work performed by the committee are set out in the Corporate Governance Report.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016 and is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

PENSION SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for those employees who are eligible to participate in the MPF Scheme. The employees of the Group's subsidiary in the PRC are required to participate in a central pension scheme operated by the local municipal government. Particulars of these pension schemes are set out in note 2.5 to the consolidated financial statements. Both the MPF Scheme and central pension scheme in the PRC are funded by the Company and employees in accordance with the relevant laws and regulations in Hong Kong and the PRC.

RELATED PARTY TRANSACTIONS

There was no loan to and dealing in favor of any Directors of the Company during the year ended 31 December 2016. Details of related party transactions of the Group during the year ended 31 December 2016 are set out in note 31 to the consolidated financial statements. None of the relevant party transaction constituted connected transaction as defined under Chapter 20 of the GEM Listing Rules. There was no connected transactions of the Group during the year ended 31 December 2016.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

EVENTS AFTER 31 DECEMBER 2016

As disclosed in the paragraph under the section headed "Management discussion and analysis — Comparison of business objectives with actual business progress" in this report, the Company agreed to purchase a total of six units with a total saleable floor area of 815.54 square metres at 2801 to 2803, 2805 to 2807 on the 28th floor of Shanghai International Commerce Centre (上海城開國際商業中心), located at No. 166 Min Hong Road, Minghang Qu, Shanghai, the PRC (the "**Properties**"), from Shanghai Shengkai Group Longcheng Property Company Limited (上海城開集團龍城置業有限公司) (the "**Vendor**") at an aggregate consideration of RMB40,000,000 pursuant to the six agreements all dated 18 January 2017 and entered into between the Great Water Shanghai and the Vendor (the "**Acquisition**"). The Acquisition was completed on 18 January 2017. The Properties are intended to serve as office space for Great Water Shanghai. For details of the Acquisition, please refer to the announcement of the Company dated 18 January 2017. Save as disclosed above, there are no significant events affecting the Group that have occurred after 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled to be held on Tuesday, 9 May 2017. The register of members of the Company will not be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the forthcoming AGM to be held on Tuesday, 9 May 2017. However, in order to qualify for attending and voting at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 2 May 2017.

AUDITOR

Ernst & Young was appointed by the Board as the auditor of the Company and there has been no change in auditor since the date of the Listing.

Ernst & Young will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM. The consolidated financial statements for the year ended 31 December 2016 have been audited by Ernst & Young.

By Order of the Board
Xie Yang
Chairman

21 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for the code A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2016.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the year ended 31 December 2016.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2016, the Board comprised of two executive Directors, two non-executive Directors and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors
Mr. Xie Yang *(Chairman and the Chief Executive Officer)*
Mr. He Xuan Xi

Non-executive Directors
Ms. Gong Lan Lan
Mr. Song Xiao Xing

Independent Non-executive Directors
Ms. Bai Shuang
Mr. Ha Cheng Yong
Mr. Tse Chi Wai

The biographical details of the Directors of the Company are set out under the section headed "Biographical Details of Directors and Senior Management" in this report.

Functions, Roles and Responsibilities of the Board

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the chief executive officer and senior management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. The abovementioned personnel should report back and obtain prior approval from the Board before making any significant decisions or entering into any significant commitments on the Company's behalf, and they may not exceed any authority given to them by resolutions of the Board or the Company.

The non-executive Directors do not involve general management and day-to-day operation of the Group. However, they will provide advice on strategic direction for the Group in the Board meetings.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board, on issues of strategic direction, policies, development, performance and risk management. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, they scrutinise the Company's performance in achieving corporate goals and objectives and monitor performance reporting. By doing so, they are able to contribute positively to the Company's strategy and policies through independent, constructive and informed comments at Board and committee meetings.

Each Director has confirmed that he/she can give sufficient time and attention to the Company's affairs, and has regularly provided information on the number and nature of offices held in public companies or organisations and other significant commitments, including the identity of such companies or organisations and an indication of the time involved.

Permitted Indemnity Provision

The Company has arranged appropriate insurance coverage for Directors' liabilities in respect of legal actions against them for corporate activities of the Group.

Board/Board Committee Meetings

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year to, among other matters, review past financial and operating performance and discuss the Group's direction and strategy. An agenda and accompanying papers together with all appropriate information will be sent to all Directors at least three days before each Board or committee meeting so as to ensure timely access to relevant information. Appropriate notice of at least 14 days for regular Board meetings and reasonable notice for other Board committee meetings will be given to all Directors, who will all be given an opportunity to attend and include matters in the agenda for discussion. Senior management will be invited to join all Board meetings to enhance communication between the Board and management; the Board and each Director will also have separate and independent access to senior management whenever necessary. The company secretary will take detailed minutes of the meetings and keep records of matters discussed and decisions resolved at the meetings, including any concerns raised or dissenting views expressed by Directors, and the voting results of Board meetings fairly reflect Board consensus. Both draft and final versions of the minutes will be sent to all Directors for their comments and records respectively, within a reasonable time after each meeting, and such minutes will be open for inspection with reasonable advance notice by any Director. Directors are entitled to have access to board papers and related materials, and any queries will be responded to fully.

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial Shareholder or Director arise, the matter is discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent non-executive Directors with no conflict of interest should be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his/her interest and abstains from voting.

DIRECTORS' ATTENDANCE AT BOARD/BOARD COMMITTEE MEETINGS

A summary of all Directors' attendance at the Board meeting and Board committee meetings held during the year 2016 are set out in the following table:

	Number of meetings attended			
Name of Director	**Board meeting**	**Audit Committee meeting**	**Nomination Committee meeting**	**Remuneration Committee meeting**
Mr. Xie Yang	5/5	N/A	1/1	1/1
Mr. He Xuan Xi	5/5	N/A	N/A	N/A
Ms. Gong Lan Lan	5/5	N/A	N/A	N/A
Mr. Song Xiao Xing	5/5	N/A	N/A	N/A
Ms. Bai Shuang	5/5	4/4	1/1	1/1
Mr. Ha Cheng Yong	5/5	4/4	N/A	1/1
Mr. Tse Chi Wai	5/5	4/4	1/1	N/A

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee of the Company has been established. In compliance with code provision D.3 of the CG Code, 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 on 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 CG Code and disclosure in the Corporate Governance Report.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Xie Yang is the chairman of the Board who is primarily responsible for providing leadership to the Board, overseeing the overall operation of the Group and leading and directing the Group's overall business and development strategies. Mr. Xie will also chair the Board and meetings of the nomination committee of the Company (the "**Nomination Committee**") and brief the Board members and Nomination Committee members on the issues arising at the respective meetings to ensure that the Directors receive adequate information in a timely manner which is accurate, clear, complete and reliable. He encourages all Directors to make full and active contribution to the Board's affairs and takes the lead to ensure that the Board acts in the Company's best interest. He aims to ensure constructive relations between executive and non-executive Directors. Mr. Xie is also the chief executive officer of the Company who is primarily responsible for day-to-day management and operation; overseeing risk management; corporate communication and marketing; product development; information technology and accounting matters of the Group. In accordance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group and the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of two executive Directors (including Mr. Xie), two non-executive Directors and three independent non-executive Directors during the year ended 31 December 2016 and therefore has sufficient independent elements in its composition. The Board is in the process of looking for a potential candidate from the market to act as the role of chief executive officer of the Company in order to comply with the CG Code.

Code provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. During the year of 2016, one meeting between the chairman of the Board and the non-executive Directors was held.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and continuing thereafter until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service agreement with the Company for a term of three years commencing from the date of the Listing, provided that either the Company or the non-executive Directors and the independent non-executive Directors may terminate such appointment at any time by giving at least three months' notice in writing to the other.

By virtue of article 16.2 of the Articles of Association, the Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. In compliance with code provision A.4.2 of the CG Code, any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. The Board has delegated the power to the Nomination Committee to make recommendations to the Board on the appointment and re-appointment of Directors. The responsibilities of the Nomination Committee are set out in the subheading "Nomination Committee" below. Directors to be appointed will have a formal letter of appointment setting out the key terms and conditions of their appointment.

In compliance with code provision A.4.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Furthermore, pursuant to article 16.18 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he/she retires and shall be eligible for re-election thereat.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to code provision A.6.5 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Company would arrange and/or introduce suitable training and information for the Directors to ensure they are fully aware of their responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. During the year ended 31 December 2016, the Company had arranged seminars on the GEM Listing Rules, the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and the SFO for the Directors. All Directors attended at least one of the seminars.

All Directors, namely Mr. Xie Yang, Mr. He Xuan Xi, Ms. Gong Lan Lan, Mr. Song Xiao Xing, Ms. Bai Shuang, Mr. Ha Cheng Yong and Mr. Tse Chi Wai, have confirmed that they had participated in continuous professional development by attending seminars and reading materials during the year ended 31 December 2016, and have provided a record of their training to the Company, in compliance with code provision A.6.5 of the CG Code.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees are established with written terms of reference, which have complied with the CG Code and are available on the Stock Exchange website at www.hkexnews.hk and the Company's website at www.greatwater.com.cn and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

AUDIT COMMITTEE

The Company had established the Audit Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the effectiveness of the risk management and internal control systems of the Company, make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and review the Company's financial information.

During the year ended 31 December 2016, the Audit Committee comprised of three independent non-executive Directors, namely, Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Tse Chi Wai is the chairman of the Audit Committee.

During the year ended 31 December 2016, the Audit Committee held four meetings. Those meetings of the Audit Committee was held to review and discuss the consolidated financial statements of the Group and, the quarterly, interim and annual results announcements and reports. The Audit Committee is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made. The Audit Committee has also reviewed the effectiveness of the risk management and internal control system of the Group, as detailed in the section headed "Internal Control and Risk Management" below. All members of the Audit Committee attended the meetings.

REMUNERATION COMMITTEE

The Company had established the Remuneration Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules.

The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration policy and other remuneration related matters, including benefits-in-kind and other compensation payable to the Directors and senior management.

During the year ended 31 December, the Remuneration Committee comprised of one executive Director and two independent non-executive Directors, namely, Mr. Xie Yang, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Ha Cheng Yong is the chairman of the Remuneration Committee.

During the year ended 31 December, one meeting of the Remuneration Committee was held to make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and the senior management and on the establishment of a procedure for developing policy on such remuneration; to determine the remuneration packages of all the executive Directors and the senior management; to assess the performance of the executive Directors and to approve the terms of their service contracts; and to make recommendations to the Board on the remuneration of the independent non-executive Directors. All members of the Remuneration Committee attended the meeting.

NOMINATION COMMITTEE

The Company had established the Nomination Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. The primary duty of the Nomination Committee is to make recommendations to the Board regarding the structure, size and composition of the Board and candidates to fill vacancies on the Board.

During the year ended 31 December, the Nomination Committee comprised of one executive Director and two independent non-executive Directors, namely, Mr. Xie Yang, Ms. Bai Shung and Mr. Tse Chi Wai. Mr. Xie Yang is the chairman of the Nomination Committee.

During the year ended 31 December 2016, one meeting of the Nomination Committee was held to review the structure and composition of the Board, to determine the policy for nomination of Directors, and to review and make recommendations to the Board on adoption of the Board diversity policy. All members of the Nomination Committee attended the meeting.

The Board adopted the view of Board diversity approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board has in its composition a balance of skills, expertise, qualifications, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs. The Board will consider a number of aspects when selecting candidates, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will ultimately be based on merit and the contribution that the selected candidates will bring to the Board, having due regard for the benefits of diversity to the Board.

SAFETY COMMITTEE

The Company has established the safety committee (the "**Safety Committee**") in March 2013 which is currently chaired by Mr. Xie Yang and co-managed by Mr. Xiang Zhi Yi (the head of procurement department) and Ms. Chen Shao Juan (the head of human resources and administration department). A Safety Committee meeting is held on a quarterly basis for the purpose of setting strategic guidelines for our safety department to (i) manage occupational health and safety measures relating to our operation; and (ii) monitor the implementation of safety management for the Group. We also designate one safety supervisor to monitor on-site safety management and report any non-compliance to the project manager who will report to the Safety Committee.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for overseeing the preparation of financial statements on an on-going concern basis, with supporting assumptions or qualifications as necessary, for each financial period with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for the financial year.

Management of the Company has provided explanation and information to the Board to enable the Board to make an informed assessment of financial and other information put before the Board for approval. This includes monthly management updates to the Board, with a balanced, understandable and sufficiently detailed assessment of the Company's performance, position and prospects, enabling the Board and each Director to discharge their duties under the GEM Listing Rules.

The Group accounts are prepared in accordance with the GEM Listing Rules, the Companies Ordinance, all relevant statutory requirements and applicable accounting standards. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. The Directors endeavor to ensure a balanced, clear and understandable assessment of the Group's position and prospects in the annual reports, interim reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules and the 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.

The responsibility of the Company's auditor, Ernst & Young, is set out in the section headed "Independent Auditor's Report" on pages 51 to 53 of this report.

Internal Control and Risk Management

The Board is responsible for maintaining a sound and effective internal control system to safeguard the Company's assets and shareholders' interests. The day-to-day risk management process of the Group is coordinated and facilitated by the compliance officer of the Company, Mr. He Xuan Xi, and is overseen by the chief executive officer of the Company, Mr. Xie Yang. The Group has established an internal audit team to conduct internal risk evaluation and review in respect of the Group's business risks, financial risks, compliance risks as well as operational and other risks by submitting relevant reports to the Audit Committee and the Board. Meanwhile, the Audit Committee of the Group also assists the Board by providing independent view of the effectiveness of the financial reporting process and internal control and risk management systems, and overseeing the audit process.

The Board convened meetings periodically to discuss business risks, financial risks, compliance risks and operation and other risks. The Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group, covering all material controls such as financial, operational and compliance controls and risk management functions, and considered that the internal control system and procedures of the Group, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programs and budget, are adequate and effective and have complied with the provisions of the CG Code during the year.

SENIOR MANAGEMENT'S REMUNERATION

The remuneration payment of the senior management of the Group (excluding the Directors) in the year ended 31 December 2016 falls within the following band:

	Number of senior management
RMB199,000 to RMB838,000	
The remuneration includes salaries and pension scheme contributions	7

AUDITOR'S REMUNERATION

The Audit Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal.

Ernst & Young was appointed by the Board as the auditor of the Company. Save for the audit services, Ernst & Young did not provide any non-audit services to the Group during the year ended 31 December 2016. The remuneration paid or payable to Ernst & Young for services rendered for the year ended 31 December 2016 was as follows:

	RMB'000
Audit services	1,137

COMPANY SECRETARY

Mr. Tsui Kan Chun ("**Mr. Tsui**"), an employee of the Company, was appointed by the Board as the company secretary of the Company (the "**Company Secretary**") on 27 May 2015. The biographical details of Mr. Tsui are set out under the section headed "Biographical Details of Directors and Senior Management" in this report.

The primary duties of the Company Secretary include, but are not limited to, the following: (a) to ensure the Board procedures are followed and that the activities of the Board are carried out efficiently and effectively; (b) to assist the chairman to prepare agendas and Board papers for meetings and disseminate such documents to the Directors and Board committees in a timely manner; (c) to timely disseminate announcements and information relating to the Group; and (d) to maintain formal minutes of the Board meetings and other Board committee meetings.

Mr. Tsui has confirmed that he had received no less than 15 hours of relevant professional training for the year ended 31 December 2016, in compliance with Rule 5.15 of the GEM Listing Rules.

COMPLIANCE OFFICER

Mr. He Xuan Xi ("**Mr. He**") was appointed as the compliance officer of the Company. The biographical details of Mr. He are set out in the section headed "Biographical Details of Directors and Senior Management".

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

To ensure compliance with the CG Code, the notice of the AGM, the annual report and the circular containing information on the proposed resolutions will be sent to Shareholders at least 20 clear business days before the AGM. Voting at the AGM will be by way of a poll. An explanation of the detailed procedures of conducting a poll will be provided to the Shareholders at the commencement of the AGM to ensure that the Shareholders are familiar with such procedures.

Poll results will be counted by the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, and will be posted on the websites of the Company and of the Stock Exchange on the day the Shareholders' meeting is held. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The chairman of the Board as well as the chairmen of the Remuneration Committee, Nomination Committee and Audit Committee, or in their absence, other members of the respective committees, are available to answer questions at the Shareholders' meetings. The Company will also arrange for the external auditor of the Company to attend the AGM to answer relevant questions if necessary.

Separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors.

SHAREHOLDERS COMMUNICATION POLICY

The Company has established a shareholders communication policy to set out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.

Rights to convene an extraordinary general meeting

Pursuant to Article 58 of the Articles of Association, any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must state the objects of the meeting, be signed by the requisitionist(s), be marked for the attention of the Board or the Company Secretary and be deposited at the principal place of business of the Company in Hong Kong.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be duly held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may convene a meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to the Shareholders for general meetings varies as follows:

(a) At least 14 days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

(b) At least 21 days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in an extraordinary general meeting.

Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by e-mail to ir@greatwater.com.cn for the attention of the Company Secretary.

Right to Put Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). However, Shareholders may follow the procedure set out in the section headed "Rights to convene an extraordinary general meeting" above for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above.

Right to Propose a Person for Election as a Director

Detailed procedures for a Shareholder to propose a person for election as a Director are available on the Company's website.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and the Shareholders, its investors and other stakeholders. These include annual general meetings, the annual, interim and quarterly reports, notices, announcements and circulars and the Company's website at www.greatwater.com.cn.

CONSTITUTIONAL DOCUMENTS

From the date of the Listing to the year ended 31 December 2016, there had been no significant change in the Company's constitutional documents.

This is the first Environmental, Social & Governance (the "**ESG**") report prepared by the Board according to Appendix 20 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited. The reporting scope focuses on the Company's subsidiary — Guangzhou Great Water Environmental Protection Co., Ltd, which constitutes the majority of the Group's business in China for the reporting period from 1 January 2016 to 31 December 2016.

Through the preparation of this ESG report, the Company realises that it serves more than a channel to communicate with the stakeholders, it is also a tool to summarise the Company's sustainability performance and to aid in evaluating its sustainability practice. Therefore, the Company will continue this ESG reporting as part of the strategy to improve the Company's sustainability performance.

OVERVIEW OF SUSTAINABILITY PRACTICES OF THE COMPANY

Since the establishment in 2001, the Company has been working in the environmental protection industry in China for 15 years. Emerging from the wastewater and drinking water treatment engineering business, the Group is now gradually expanding to a wider and more comprehensive environmental protection business.

Throughout all these years, sustainability is regarded as an important concept in the Company's corporate value. Guided by the corporate value and with the aid of a thorough Integrated Management System (the "**IMS**"), which was certified with the international environmental management system ISO14001:2015 and the quality management system ISO9001:2015 standards in 2016, the Company is not only pursuing continuity in business development, but also, most importantly, contributing to a better environment for the Group and the next generation.

THE ENVIRONMENT

The Company's mission is to create positive impacts to the environment in China. To achieve this, as an environmental protection engineering services company in China, the Company aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing environmental protection solutions to customers.

Minimising environmental impacts arising from operations

Under the certification of ISO 14001 (ISO 14001 helps organisations improve its environmental performance through more efficient use of resources and reduction of waste, gaining a competitive advantage and the trusts of stakeholders), the Company strives to comply with applicable laws and regulations, minimise the negative impact to the environment within its operations and continually improve so as to tackle environmental challenges it facees. To do so, the Company has established an environmental action group who is responsible for identifying and constantly evaluating environmental issues arising from its operations, which include works carried out in the Research and Development (the "**R&D**") laboratory and the Operation and Maintenance (the "**O&M**") project sites (the "Environmental Action Group"). The Company also closely reviews all related environmental regulations to its business and ensures compliance with all relevant laws and regulations in China. In 2016, the Company did not breach any relevant environmental laws and regulations in respect of pollutants emissions. The evaluation results are then used to establish and enhance goals and plans for continuous improvement in its project performance.

The Company focuses on the use of resources such as energy, water and paper — utilising them efficiently not only helps lowering the operating cost, but also reduces its carbon footprint. To achieve this, the Company believes that it relies on the efforts from all of the employees; therefore, in order to raise the environmental protection awareness among employees, green office practice, such as using recycled paper and posting reminders regarding energy and water saving behaviour, is promoted in the office. In addition, the Company has set up policy on establishing greenhouse gas inventory, and will continue to look for opportunities to lower the greenhouse gas emissions within its operation.

To manage wastes effectively, The Company has issued guidance regarding treatment of both hazardous and non-hazardous wastes. All hazardous wastes produced from the R&D laboratory or during the construction of treatment facilities are labelled, stored, treated and transported with strict compliance to related laws and regulations in China. Non-hazardous wastes generated from office or during the construction are collected in designated locations. Relevant rules as stated in the waste management policy are given to employees specifying how and where they should dispose the wastes in workplace.

To further improve the environmental performance within its operation, the Company has planned to include the environmental key performance indicators ("**KPIs**"), such as greenhouse gas emissions, waste generation, energy and water consumption and has commenced the relevant work in monitoring and collecting such data for the reporting period commencing on 1 January 2017.

Providing environmental protection engineering solution

With the Company's experience in the environmental engineering services and investment in R&D, the Company has devoted its resources to providing its customers with an extended range of engineering solutions, from wastewater and drinking water treatment, to other businesses including soil remediation and waste disposal with an aim of solving the environmental issues in their operations.

In consideration that the constructions of all these treatment facilities may cause negative impacts on the environment, the Company therefore ensures that the constructions are strictly in compliance with the applicable environmental laws and regulations in China:

— Environmental impact assessment approval is obtained prior to the construction of the facilities when necessary.

— During the construction of the project, environmental monitoring and auditing are also conducted according to the PRC's laws and regulations to ensure implementation of proper mitigation measures in relation to potential impact on the environment.

— Final inspection is carried out before the operation of the facilities.

In addition to construction of the water treatment facilities, the Company also provides O&M service to the facilities owners, where the Company strives to ensure the effectiveness of the facilities in dealing with the environmental issues of the customers. For example, in the O&M of wastewater treatment facilities, it is the Company's prime objective to ensure that the effluent quality should meet the government's water quality standard, therefore, the Company has engaged a third-party agent to monitor the effluent quality regularly. Sludge, a hazardous waste from the leftover of wastewater treatment, is another environmental issue that the Company has to tackle. To avoid any environmental pollution caused by sludge, measures are put in place to prevent leakage and rainwater from infiltrating into the sludge.

In addition, the Company places high importance on R&D on environmental protection treatment technologies in order to improve the existing technologies, and has continually developed other technologies with higher efficiency and effectiveness. Currently, the Company possesses 16 patents and will continue to file more patent applications, so as to maintain the Group's competitiveness in the environmental protection treatment market in China.

THE PEOPLE

Employees are valuable assets to the Group and form the basis of its business; therefore, the Company cares about employees and aims to provide a workplace where people are valued.

Training and development

The Company has developed a training management system with an aim to become a leading enterprise which can effectively elevate its business performance, as well as improve employees' capabilities and facilitate their own development. Annual and monthly training plans are designed for each employee, and various types of training, including new hire training, soft skills training, technical training and job-specific training, are provided in order to cater for the needs of employees and the Group's internal strategic plan. The Company also places emphasis on self-learning, and encourage employees to continuously study. Rewards are given to employees who acquire relevant qualifications from further education.

For the career development at the Company, all employees are subject to equal opportunity in promotion based on appraisal on their work performance. Apart from performance, as a means to promoting learning and education, employees also need to attain certain number of training hours per year in order to be promoted.

Rights and benefits

The Company is aware of its role and responsibilities to the employees, which is why the Company guarantees all labour rights to its employees. The human resources policy is developed to ensure the compliance with all PRC's laws and regulations on employment including compensation and dismissal, working hours and wages. During the recruitment and appraisal of employees, the Company upholds the principles of equal opportunity, anti-discrimination and diversity to ensure a fair recruitment process applied to all candidates. Through the comprehensive appraisal system, employees are promoted fairly based on their contributions and work performance. The Company also strongly prohibits any child or forced labour in workplace, and ensures the employees work consensually. The Company did not breach any relevant laws and regulations in respect of employment and labour practices in 2016.

A number of benefit and welfare is provided to the employees based on different needs and characteristics of their job duties. For example, subsidies are given to employees who unavoidably work in poor working conditions with unpleasant odour or high temperature outdoor working environments, allowances are given to employees to compensate for any work-related expenses such as transportations, meals and telecommunications. In addition, various kinds of bonuses are offered to employees as merits for their outstanding performance, contribution to the Company and safety performance.

Occupational health and safety

The Company does its utmost to safeguard the workplace safety of its employees. "Safety comes first, emphasis on precaution" is the Company's motto. In order to achieve this, the Company has established a safety committee, which comprised of senior management and staff members who had received professional safety trainings for overseeing the implementation of safety measures in the Company (the "Safety Committee"). The Safety Committee holds meeting regularly to evaluate and continuously review its safety management policies.

Out of all the identified safety risks in working environment, the Company pays particular attention to fire hazard and aims to raise employees' awareness towards fire safety in workplace. The Company has fire safety training to all employees, and conducts fire drills from time to time to practise and review its emergency response to fire hazard.

There are also potential safety hazards in the R&D laboratory. To ensure employees' work safety, safety training and proper personal protective equipment are provided. The Company has also established rules and procedures to govern the safety of laboratories, covering areas such as chemical and hazardous waste handling, fire and explosion emergency response and staff injuries. For example, the Company has prepared the Material Safety Data Sheet for all the chemicals involved in the R&D laboratory, to ensure that the staff members who handle the chemicals are well aware of the potential hazards (health, fire, reactivity and environmental), and understand how to work safely with the chemical products. Hazardous wastes are treated as a Listing that can be discharged/disposed of safely so as to bring the least harm to people and the environment. There was not any breach of relevant laws and regulations by the Company during 2016.

During the construction of facilities, safety always comes first. To this end, sub-contractors are required to sign a safety agreement to comply with the Company's safety requirements, including safety risk identification and evaluation, safety-related fine statistics, safety training and inspection.

THE BUSINESS

The success of the Company's business is built upon the mutual trust with its business partners. To continue the success, maintaining good relationships with its business partners and upholding integrity in conducting businesses are indispensable.

Integrity in business

The Company adheres to ethical principles when conducting its business activities. Strict ethical rules, policies and guidances especially on fair competition, anti-corruption and conflict of interests are implemented. Whistle-blowing system has been put in place which allows employees to directly report on any corruption act, misconduct, or malpractice related to the Company to relevant personnel for investigation if necessary. The Audit Committee of the Company then handles the report of the investigation, and further action is conducted, as appropriate, by the Board.

Fair competition

The Company pursues a fair and honest competition with its competitors in the market, and strictly complies with relevant fair competition laws and regulations. Any violation on the Company's policies or the laws will lead to penalties and legal liabilities. In particular, the Company prohibits any price-fixing, market allocation and deceptive or unfair advertisement. The Company also ensures fair competition among suppliers and sub-contractors, and prohibits any unfair form of termination of the contractual relationships with them.

Anti-corruption

The Company forbids any form of bribery with suppliers and customers as stated in the related laws and regulations. Suppliers are required to sign agreements to acknowledge and agree to comply with the Company's anti-bribery policy. The policy also forbids employees to receive any benefits from its business partners for any advantages or favours in the business. The Company did not breach any relevant laws and regulations in respect of anti-corruption practices in 2016.

Conflict of interests

Employees, as being involved in the Company's business operations, are restricted from conducting any insider trading of the Company's stock, or from disclosing any insider information which allows the public to benefit from investing into the Company's stock, or affects the trading price of the stock.

Supplier and sub-contractor management

The Company performs supplier assessment for all potential suppliers, and conducts annual assessment for existing suppliers to ensure their supplies fulfil its expectations. Apart from the consideration of quality and cost, the Company also takes into consideration the environmental and safety aspects of raw materials procured from or used by the suppliers. For example, the Company always opts for raw materials that are more environmentally friendly, monitors the safety conditions of raw material storage, and reviews the working environment and labour conditions during the assessment.

Customer-centred business

Apart from providing the best support to customers on their environmental issues in their business operations, the Company also developed a systematic approach on quality management following the international standard ISO9001, and set up procedures from project design to after-sales services. For example, warranty is provided to ensure that the wastewater treatment facilities are operated appropriately and effluent quality meets the government standards. Customers' satisfaction survey is conducted annually to continuously check if the Company's products and services meet customers' expectations, and the valuable opinions obtained are used to review and improve its services. If any complaints were received from customers or any quality issues were identified from regular audits on the product and service quality, the Company would promptly investigate and rectify the problems. By all these means, the Company is determined to look for any room for improvement in its service.

Protection of privacy information is also essential to gain trust from clients. The Company has policy in place to regulate how to collect and handle customers' information. The Company is also devoted to protecting intellectual property rights. Policies to protect intellectual property rights in areas such as technologies, trademarks, inventions, copyrights and business secrets are developed for both Company's and customers' benefits. In addition, the Company allocated April as the "Patent's Law Promotion Month", in which different activities are held to promote the Patent's Law in China, as well as other standards and regulations of intellectual property rights protection to employees.

These was not any breach of relevant laws and regulations relating to health and safety, advertising, labeling and privacy matters in connection with to the products and service provided by the Group.

THE COMMUNITY

In 2016, the Company established the community investment policy, and plan to set up a team to organise and participate in community activities with the aim to contribute back to the community. Details of the Company's efforts will be disclosed in future reporting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. XIE Yang (**謝楊先生**), aged 53, is an executive Director, the Chairman and the chief executive officer of the Company. Mr. Xie is one of the Controlling Shareholders. Mr. Xie is also a director of each of Guangzhou Hongrun Environmental Protection Technology Co., Ltd. (廣州宏潤環保技術有限公司) ("**Hongrun EP**"), Guangzhou Lintao Environmental Protection Technology Co., Ltd. (廣州霖濤環保技術有限公司) ("**Lintao EP**"), Guangzhou Great Water Environmental Protection Co., Ltd. (廣州中科建禹環保有限公司) ("**Guangzhou Great Water**") and Great Water EP Investment (China) Limited ("**Great Water Hong Kong**"), all being wholly-owned subsidiaries of the Company. He has over 13 years of experience in wastewater and water treatment engineering service industry in the PRC. Mr. Xie is primarily responsible for the overall management, strategic planning and business development of the Group. He is also the legal representative and general manager of Guangzhou Great Water. Mr. Xie is one of the founding shareholders of Guangzhou Great Water in August 2001. Prior to the establishment of Guangzhou Great Water, Mr. Xie was a shareholder and a director of Guangzhou Sunshine Gas Development Co. Ltd. (廣州陽光燃氣發展有限公司), a company principally engaged in the design, implementation and management of natural gas facilities and pipes from 1996 to 2001, where he was responsible for its overall management, strategic planning and business development.

Mr. Xie graduated from the Hunan Normal University (湖南師範大學), the PRC in July 1981. He further completed his education in political sciences at Central School of China Communist Youth League (中國共產主義青年團中央團校) (currently known as China Youth University of Political Studies (中國青年政治學院)) in January 1988. In November 2003, Mr. Xie was appointed as a visiting professor at Hunan Technology College (湖南科技學院). He is also a senior engineer in the field of environmental engineering recognised by Chinese Academy of Sciences (中國科學院) in November 2004.

As at 31 December 2016, Mr. Xie was interested in 91,350,000 Shares. For details, please refer to the section headed "Report of the Directors — Disclosure of Interests" in this report.

Mr. HE Xuan Xi (**何炫曦先生**), aged 35, is an executive Director and the compliance officer of the Company. Mr. He is primarily responsible for general management and overseeing major affairs of the Group, including project management and strategic development of the Group. Mr. He has over 9 years of experience in accounting and financial management. Mr. He joined the Group as an accountant in January 2007 and was later promoted to finance supervisor in November 2007, finance deputy manager in March 2008, finance manager in January 2009 and assistant to general manager in March 2014. Mr. He graduated from Guangdong Finance and Economics College (廣東財經職業學院大學專科) in July 2005 with a diploma in accountancy. He further obtained a bachelor degree in accountancy from South China University of Technology School of Continuing Education (華南理工大學繼續教育學院) in Guangzhou, the PRC, in January 2011.

NON-EXECUTIVE DIRECTORS

Ms. GONG Lan Lan (**龔嵐嵐女士**), aged 40, is a non-executive Director. She is one of the Controlling Shareholders. She has served as a director of Guangzhou Great Water since June 2012. Ms. Gong has assumed a non-executive role on the board of Guangzhou Great Water and does not participate in the day-to-day management and operation of the Group. Ms. Gong also gives advice on strategic direction of the Group as a member of the Board. Ms. Gong is also a director of Hongrun EP and Lintao EP. Since September 2007, Ms. Gong has worked as a deputy general manager responsible for general management and day-to-day operation in Shanghai Tengyi Information Technology Co., Ltd. (上海騰一信息技術有限公司) (a company principally engaged in information technology development business). Ms. Gong graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in corporate management in June 1998. She further obtained a master degree in accountancy at Shanghai University of Finance and Economics in December 2007.

As at 31 December 2016, Ms. Gong was interested in 67,117,500 Shares. For details, please refer to the section headed "Report of the Directors — Disclosure of Interests" in this report.

Mr. SONG Xiao Xing (**宋曉星先生**), aged 36, is a non-executive Director. He is one of the Controlling Shareholders. He has served as a director of Guangzhou Great Water since June 2012. Mr. Song has assumed a non-executive role on the board of Guangzhou Great Water and does not participate in the day-to-day management and operation of the Group. Mr. Song also gives advice and guidance on engineering and technical issues as a member of the Board. Mr. Song is also a director of Hongrun EP and Lintao EP. Since September 2010, Mr. Song has worked as the general manager for construction structural alteration projects in Shanghai Xiaan Engineering Technology Co., Ltd. (上海廈安工程科技有限公司), (a company principally engaged in construction engineering business). From July 2009 to July 2010, Mr. Song worked as an engineer who was primarily responsible for research and development work relating to large-scale construction engineering projects at the technology centre of Shanghai Construction No. 1 (Group) Co., Ltd. (上海建工一建集團有限公司), a company principally engaged in property construction contracting business.

Mr. Song graduated from Hefei University of Technology (合肥工業大學) with a bachelor in construction engineering in July 2002. He further obtained a master degree in structural engineering at Hefei University of Technology in May 2005 and completed his PhD in disaster prevention engineering and maintenance engineering at Tongji University (同濟大學) in July 2009.

As at 31 December 2016, Mr. Song was interested in 44,032,500 Shares. For details, please refer to the section headed "Report of the Directors — Disclosure of Interests" in this report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. BAI Shuang (**白爽女士**), aged 45, is an independent non-executive Director. Ms. Bai is a seasoned practising lawyer in the PRC and has more than twenty years practising legal experience in the PRC. She is currently a senior partner of Beijing Dacheng (Guangzhou) Law Offices (北京大成(廣州)律師事務所) since November 2010. From October 2006 to October 2010, Ms. Bai was a partner of Guangdong Debi Law Offices (廣東德比律師事務所). From October 2001 to October 2006, she worked as a lawyer at Guangdong Kings Law Firm (廣東金領律師事務所). Ms. Bai graduated from Southwest University of Political Science and Law (西南政法大學) with a bachelor degree in laws in July 1992.

Mr. HA Cheng Yong (**哈成勇先生**), aged 58, is an independent non-executive Director. Mr. Ha has 33 years of experience in research and application of chemistry and natural sciences. From January 2012, Mr. Ha has served as an assistant to the Dean of Industrial Technology Research Institute of Chinese Academy of Sciences (中國科學院), a national academy for natural sciences of the PRC and Mr. Ha was responsible for property investment and supervising the research on the application of polymer materials. During the period between December 2000 and June 2009, Mr. Ha was the deputy head of Guangzhou Chemistry Research Institutes of Chinese Academy of Sciences (中國科學院廣州化學研究所) who was responsible for overseeing chemistry research activities. From December 2001 to May 2009, Mr. Ha served as a managing director of Chinese Academy of Sciences Guangzhou Chemistry Co., Ltd. (中科院廣州化學有限公司), a company principally engaged in the research and development on chemical engineering and other engineering services where he was responsible for the overall management, the strategic development and formulation of research area and direction of the Company. Since November 1997, Mr. Ha worked as a researcher and was later promoted to tutor for master students at Guangzhou Chemistry Research Institute of Chinese Academy of Sciences.

Mr. Ha graduated from Wuxi Light Industry College (無錫輕工業學院) (now known as Jiangnan University (江南大學)) with a bachelor degree in industrial chemistry in December 1982. He then obtained a master's degree in forest chemical processing engineering at Institute of Chemical Industry of Forest Products (中國林業科學研究院) in September 1985 and later completed his PhD at the same institute in October 1991. During the period between November 2008 and December 2014, Mr. Ha was an independent director of Xilong Chemical Co., Ltd. (西隴化工股份有限公司) (a company principally engaged in the production, sale, research and development of chemical reagent, a company established in the PRC and listed on the Shenzhen Stock Exchange (stock code: 002584)).

Mr. TSE Chi Wai (**謝志偉先生**), aged 49, is an independent non-executive Director. He is an executive director, the financial controller and company secretary of China Information Technology Development Limited, a company listed on the GEM of the Stock Exchange (stock code: 8178), the principal business of which is development and sale of computer software and hardware and the provision of system integration and related support services in the PRC. Mr. Tse has over twenty years of experience in auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse is an independent non-executive director of Huarong Investment Stock Corporation Limited (a company principally engaged in the foundation and substructure business and financial investment and related services, the shares of which are listed on the main board of the Stock Exchange (stock code: 2277)) since April 2016, an independent non-executive director of China Environmental Technology Holdings Limited (a company principally engaged in among others, environmental protection technology, the shares of which are listed on the main board of the Stock Exchange (stock code: 646)) since May 2015 and an independent non-executive director of Sunac China Holdings Limited (a company principally engaged in property development, property investment and property management services, the shares of which are listed on the main board of the Stock Exchange (stock code: 1918)) since December 2012. Mr. Tse is also an executive director of Jih Sun Financial Holding Company Limited (a company principally engaged in securities brokerage, trading, underwriting, and margin purchases and short sales activities, the shares of which are listed on the Taiwan Stock Exchange Corporation (stock code: 5820: Taiwan)) since December 2010. Mr. Tse graduated from the University of Hong Kong in June 1989 with a bachelor degree in social sciences. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants.

During the period between March 2015 and November 2015, Mr. Tse was an independent non-executive director of Greens Holdings Ltd. ("**Greens Holdings**"), a company incorporated in the Cayman Islands and principally engaged in the manufacture and supply of heat transfer products and solutions, the shares of which are listed on the main board of the Stock Exchange (stock code: 1318). Greens Holdings announced that (i) on 2 September 2015, Greens Holdings filed a winding up petition with the Grand Court of the Cayman Islands as Greens Holdings was unable to repay its debt; (ii) on 29 September 2015, a winding up petition was filed with the High Court of Hong Kong against Greens Holdings by a bondholder for an outstanding debt under the unlisted bonds issued by Greens Holdings in January 2015; (iii) on 8 October 2015, joint provisional liquidators were appointed pursuant to an order of the Grand Court of the Cayman Islands; (iv) the winding up petition hearing which was originally scheduled on 2 December 2015, has been adjourned several times to 3 August 2016 of which the petitioner was granted leave to withdraw the winding up petition in Hong Kong; (v) the Grand Court of the Cayman Islands convened a case management conference on 7 April 2016 and ordered that the winding up petition with the Grand Court of the Cayman Islands be listed for directions hearing on 17 May 2016, which was adjourned and rescheduled for several times until a date to be fixed after 30 April 2017; (vi) the Stock Exchange issued a letter dated 28 October 2016 to Greens Holdings stating that it had decided to place Greens Holdings into the third delisting stage; and (vii) the Stock Exchange issued a letter dated 18 January 2017 to Greens Holdings stating that the review hearing in relation to the review decision has been scheduled for 28 March 2017. Mr. Tse confirmed that (i) there is no wrongful act on his part leading to the said winding up petitions and he is not aware of any actual or potential claim which has been or will be made against him as a result of the said winding up petitions; and (ii) his involvement in Greens Holdings during his tenure was part and parcel of his services as a director thereof and no misconduct or misfeasance on his part had been involved in the said winding up petitions.

Save as disclosed above, each of the Directors dose not have any relationship with other Directors, senior management or substantial or controlling Shareholders of the Company.

SENIOR MANAGEMENT

Mr. KANG Zhao Yu (康兆雨先生), aged 39, is the Group's vice president. Mr. Kang joined the Group as the head of our engineering and technology department in February 2008. He has over 12 years of experience in environmental protection technology and engineering. Mr. Kang is responsible for overseeing the engineering, and technical operations of the Group. Prior to joining the Group, from January 2003 to July 2007, he worked as a technology deputy manager at Clean & Green Environmental Technology Co., Ltd. (思捷環保科技有限公司), a company principally engaged in environmental protection engineering, where he was responsible for environmental protection project management.

Mr. Kang graduated from Beijing Light Industry College (北京輕工業學院) (currently known as Beijing Technology and Business University (北京工商大學)) in July 1999 with a bachelor degree in environmental engineering. Since December 2008, Mr. Kang has been a municipal water drainage intermediate engineer (市政級排水中級工程師) recognised by China Northeast Municipal Engineering Design & Research Institute (中國市政工程東北設計研究院). Mr. Kang has been a registered environmental protection engineer admitted by the Human Resources and Social Security Bureau of the Guangdong Province, the PRC (廣東省人力資源和社會保障廳) since February 2010.

Mr. FENG Huan (馮奐先生), aged 34, is the head of the Group's marketing department. Mr Feng joined the Group in January 2016 and is responsible for the Group's market expansion. Mr. Feng worked as a sales manager in South China and the top customer manager in China at Alfa Laval Group and Sidel, respectively. He has over 10 years of experience in industrial customer base and the field of engineering. Mr. Feng graduated from Central South University (中南大學) in Hunan in 2006 with a bachelor degree in chemical engineering and technology.

Mr. WANG Lei (王磊先生), aged 34, is the head of the design, research and development centre. Mr. Wang joined the Group in June 2016 and is responsible for the Company's technical work such as design, research and development. He has over 10 years of experience in the consultation, design, research and development, project evaluation, construction management and operational commissioning in the field of environmental protection and drainage. Prior to joining the Group, from June 2007 to June 2016, Mr. Wang worked as the heads of the specialist, design and advisory and evaluation centre departments, as well as the deputy general engineer at the design institute and the head of environmental institute at Guangzhou Huahao Energy Environmental Protection Group Limited (廣州華浩能源環保集團有限公司).

Mr. Wang graduated from Xi'an University of Architecture and Technology (西安建築科技大學) in September 2005 with a bachelor degree in environmental science. He then obtained a master degree in municipal engineering at Harbin Institute of Technology (哈爾濱工業大學) in December 2007. Mr. Wang qualified as a registered environmental protection engineer in 2010, a registered utility engineer (water supply and drainage) in 2012 and a registered consulting engineer and senior engineer in 2014 respectively.

Mr. XIANG Zhi Yi (向值毅先生), aged 35, is the head of the construction material management centre and is primarily responsible for the Group's comprehensive planning for construction, implementation and procurement of engineering projects. Mr. Xiang joined the Group in September 2005 and has served for the Group for over 11 years. Mr. Xiang was promoted as the supervisor, the deputy manager and the manager of the material department in 2009, 2011 and 2013 respectively, and then was promoted as the head of the engineering procurement management centre in April 2016.

Mr. Xiang obtained the certificate in purchasing issued by the National Professional Qualification Training and Authentication Experimental Base (國家職業資格培訓鑒定實驗基地) in May 2014.

Ms. CHEN Shao Juan (**陳少娟女士**), aged 38, is the head of human resources and administration department of the company. Ms. Chen joined the Group as the human resources and administration manager in February 2007. She has over 15 years of human resources and administration experience. Ms. Chen is responsible for overseeing human resources and administration matters of the Group. Prior to joining the Group, from August 2001 to June 2006, she worked as an officer of general management office at Guangdong Zhongke Green Spring Co., Ltd (廣東中科綠源水務有限公司), a company principally engaged in water and wastewater treatment engineering projects, where she was responsible for human resources management.

Ms. Chen graduated from Guangdong Vocational Polytechnic Normal University (廣東職業技術師範學院) (currently known as the Guangdong Polytechnic Normal University (廣東技術師範學院)) in July 2000 with a diploma in electronic engineering. She further obtained a bachelor degree in human resources management from Nanjing University of Science and Technology (南京理工大學) in July 2005. Ms. Chen is certified to be a human resources professional admitted by Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in February 2006. She is also certified to be an assistant economist by the Human Resources and Social Security Bureau of Guangzhou Development District, the PRC (廣州開發區人力資源和社會保障局) in February 2012.

Mr. LENG De Rong (冷德榮先生), aged 38, is the head of finance department in China. Mr. Leng joined the Group in May 2014 and is responsible for the Group's financial management in China. Prior to joining the Group, Mr. Leng was responsible for financial management at Tianci Hi-tech Material Co., Ltd. (天賜高新材料股份公司) (a company listed on the Shenzhen Stock exchange (stock code: 2709)) and Doppler Electronic Technologies Co., Ltd. (多浦樂電子科技公司). He has years of experience in financial management at listed companies and high-tech companies. Mr. Leng obtained the qualification of an intermediate accountant in May 2009 and a Chinese certified tax agent in August 2012.

Mr. TSUI Kan Chun (**徐勤進先生**), aged 43, is our chief financial officer and the company secretary of the Company. Mr. Tsui joined the Group in March 2015. Mr. Tsui was appointed the chief financial officer and the company secretary of the Company on 27 May 2015. He has over 15 years of experience in auditing, finance and accounting. Mr. Tsui is responsible for overseeing the accounting and financial operations of the Group. Prior to joining the Group, from September 2012 to July 2014, he was the company secretary, authorised representative and chief financial officer of Blue Sky Power Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 6828). From May 2007 to July 2012, he worked as a company secretary, authorised representative and group financial controller of Shanghai Tonva Petrochemical Co., Ltd., a company listed on the main board of the Stock Exchange (stock code: 1103).

Mr. Tsui graduated from the University of Wollongong in Australia with a bachelor degree in accountancy in May 1997. He further obtained a master degree in corporate governance from Hong Kong Polytechnic University in December 2006. Mr. Tsui is an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the Certified Practising Accountants in Australia and an associate member of the Hong Kong Institute of Chartered Secretaries.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Great Water Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Great Water Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 54 to 113, which comprise the consolidated statement of financial position as at 31 December 2016, and 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(continued)*

Key audit matters	How our audit addressed the key audit matters
Revenue recognition	
The Group's revenue includes revenue from construction contracts, which is significant to the revenue. The revenue recognition of construction contracts is dependent on the estimated percentage of completion of each contract, which is determined based on the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. As these contracts sometimes span over reporting periods, changes in the estimates of total contract costs or the inappropriate recording of costs at the year end could result in material amounts of revenue being recorded in the incorrect period. The related disclosures are included in notes 2.4, 3 and 5 to the consolidated financial statements.	Our audit procedures included: • Tested the calculation of the determination of stage of completion by checking the sale and cost documentation, including the contracts, acceptance notes, final completion notes, sales invoices, purchase invoices and bank slips; • Tested management's process of budget estimation by checking the signed contracts, reviewing the budget base of labour and overheads and comparing the actual costs incurred with the budgeted contract costs for the selected samples of construction contracts; and, • Checked the calculation of revenue recognition based on the calculated stage of completion determined.
Fair valuation of investment properties	
The Group's investment properties represent industrial properties located in Mainland China, which are held to earn rentals. The investment properties were measured at fair value and were significant to the Group. The management engaged an external appraiser to perform the valuation under the direct comparison approach. The market price of these industrial properties that the building and land locate in is unobservable, and thus the assessment of fair value is complex and involves management estimates and assumptions. The use of different estimates and assumptions could result in significantly different fair values. The related disclosures are included in notes 2.4, 3 and 14 to the consolidated financial statements.	We assessed the competence, reputation and independence of the external appraiser. We involved our valuation experts to assist us in evaluating the valuation methodology and the key inputs. We also compared the valuation with the market price of the relevant properties and the current market information.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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 this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for 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. Our report is made solely to you, as a body, 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 judgement 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.

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 consolidated 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 Hui Kin Fai, Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong
21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 *RMB'000*
REVENUE	*5*	**179,329**	166,985
Cost of sales		**(119,212)**	(122,855)
Gross profit		**60,117**	44,130
Other income and gains	*5*	**10,249**	3,012
Selling and distribution expenses		**(2,521)**	(1,755)
Administrative expenses		**(21,158)**	(24,312)
Other expenses		**(107)**	(45)
Finance costs	*7*	**(178)**	(618)
PROFIT BEFORE TAX	*6*	**46,402**	20,412
Income tax expense	*10*	**(8,181)**	(3,495)
PROFIT FOR THE YEAR		**38,221**	16,917
Attributable to:			
Owners of the parent		**38,223**	16,917
Non-controlling interests		**(2)**	–
		38,221	16,917
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*12*	**RMB0.13**	RMB0.07
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**3,816**	1,144
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**3,816**	1,144
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**3,816**	1,144
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**42,037**	18,061
Attributable to:			
Owners of the parent		**42,039**	18,061
Non-controlling interests		**(2)**	–
		42,037	18,061

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**13,637**	6,216
Investment properties	14	**20,788**	20,425
Prepaid land lease payments	15	**644**	158
Total non-current assets		**35,069**	26,799
CURRENT ASSETS			
Inventories	16	**77**	130
Gross amounts due from contract customers	17	**34,466**	1,608
Trade and bills receivables	18	**84,430**	72,604
Prepayments, deposits and other receivables	19	**25,618**	14,139
Pledged deposits	20	**1,035**	–
Cash and cash equivalents	20	**124,971**	111,792
Total current assets		**270,597**	200,273
CURRENT LIABILITIES			
Trade payables	21	**58,751**	55,612
Other payables and accruals	22	**18,520**	15,218
Interest-bearing bank borrowing	23	**40,000**	15,000
Tax payable		**6,732**	3,143
Total current liabilities		**124,003**	88,973
NET CURRENT ASSETS		**146,594**	111,300
TOTAL ASSETS LESS CURRENT LIABILITIES		**181,663**	138,099

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**181,663**	138,099
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**4,460**	2,933
Total non-current liabilities		**4,460**	2,933
Net assets		**177,203**	135,166
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**2,397**	2,397
Reserves	26	**174,808**	132,769
		177,205	135,166
Non-controlling interests		**(2)**	–
Total equity		**177,203**	135,166

Xie Yang
Director

He Xuan Xi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Share capital RMB'000 (note 25)	Share premium account RMB'000 (note 25)	Merger reserve^ RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve# RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2015	–	–	34,170	9,134	2,063	(3)	18,526	63,890
Profit for the year	–	–	–	–	–	–	16,917	16,917
Other comprehensive income for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	1,144	–	1,144
Total comprehensive income for the year	–	–	–	–	–	1,144	16,917	18,061
Issue of shares on incorporation and Reorganisation	1,776	45,694	–	–	–	–	–	47,470
Issue of shares pursuant to initial public offering ("**IPO**")	621	58,965	–	–	–	–	–	59,586
Share issue expenses	–	(5,841)	–	–	–	–	–	(5,841)
Distribution to shareholders	–	–	(48,000)	–	–	–	–	(48,000)
Transfer from retained profits	–	–	–	–	1,765	–	(1,765)	–
At 31 December 2015	2,397	98,818*	(13,830)*	9,134*	3,828*	1,141*	33,678*	135,166

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent									
	Share capital *RMB'000* *(note 25)*	Share premium account *RMB'000* *(note 25)*	Merger reserve^ *RMB'000*	Asset revaluation reserve *RMB'000*	Statutory surplus reserve# *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2016	2,397	98,818	(13,830)	9,134	3,828	1,141	33,678	135,166	–	135,166
Profit for the year	–	–	–	–	–	–	38,223	38,223	(2)	38,221
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	3,816	–	3,816	–	3,816
Total comprehensive income for the year	–	–	–	–	–	3,816	38,223	42,039	(2)	42,037
Transfer from retained profits	–	–	–	–	4,294	–	(4,294)	–	–	–
At 31 December 2016	2,397	98,818*	(13,830)*	9,134*	8,122*	4,957*	67,607*	177,205	(2)	177,203

Note:

* These reserve accounts comprise the consolidated reserves of RMB174,808,000 (2015: RMB132,769,000) in the consolidated statement of financial position.

^ The merger reserve of the Group represents the capital contributions from the equity holders of certain subsidiaries now comprising the Group before the completion of the Group's Reorganisation which was completed on 10 July 2015. The Reorganisation only involved addition of new holding entities on top of Guangzhou Great Water, the then holding company of the Group, and has not resulted in any change of economic substances.

Pursuant to the relevant laws and regulations relating to foreign investment enterprises, a portion of the profits of certain subsidiaries in the PRC is required to be transferred to the PRC statutory surplus reserve which is restricted as to use. These PRC entities are not required to make any further transfer when the amount of the PRC statutory surplus reserve reaches 50% of their registered capital. The PRC statutory surplus reserve can be used to offset their accumulated losses or to increase their registered capital, provided the remaining balance of the PRC statutory surplus reserve is not less than 25% of the registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**46,402**	20,412
Adjustments for:			
Finance costs	7	**178**	618
Bank interest income	5	**(83)**	(89)
Gain on disposal of items of property, plant and equipment	5	**(1)**	(78)
Depreciation	13	**711**	490
Fair value gains on investment properties	14	**(5,361)**	(319)
Recognition of prepaid land lease payments	15	**25**	25
		41,871	21,059
Decrease in inventories		**53**	3,292
(Increase)/decrease in gross amounts due from contract customers		**(32,858)**	4,446
Increase in trade and bills receivables		**(11,595)**	(2,046)
Increase in prepayments, deposits and other receivables		**(11,467)**	(9,478)
Increase in pledged deposits		**(1,035)**	–
Increase in trade payables		**3,139**	9,976
Decrease in amounts due to contract customers		**–**	(290)
Increase in other payables and accruals		**3,281**	1,499
Cash (used in)/generated from operations		**(8,611)**	28,458
Interest received		**83**	89
Overseas taxes paid		**(3,063)**	(3,279)
Net cash flows (used in)/from operating activities		**(11,591)**	25,268
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,644)**	(2,504)
Proceeds from disposal of items of property, plant and equipment		**6**	128
Net cash flows used in investing activities		**(3,638)**	(2,376)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows used in investing activities		**(3,638)**	(2,376)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	59,586
Share issue expenses		**–**	(3,241)
New bank loans		**40,000**	15,000
Repayments of bank loans		**(15,000)**	–
Interest paid		**(157)**	(591)
Net cash flows from financing activities		**24,843**	70,754
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,614**	93,646
Cash and cash equivalents at beginning of year		**111,792**	17,532
Effect of foreign exchange rate changes, net		**3,565**	614
CASH AND CASH EQUIVALENTS AT END OF YEAR		**124,971**	111,792
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**124,971**	111,792
Cash and cash equivalents as stated in the consolidated statement of financial position	*20*	**124,971**	111,792
Cash and cash equivalents as stated in the consolidated statement of cash flows		**124,971**	111,792

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 2001, 20/F, Chinachem Johnston Plaza, 186 Johnston Road, Wan Chai, Hong Kong.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in environmental protection business, such as wastewater treatment and soil remediation, through design, construction, operation and maintenance service of related facilities and trading of related equipment.

The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 9 December 2015 (the "**Listing**").

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of business	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Great Water EP Investment Limited *	Hong Kong 10 March 2015	HK$60,125,001	100	–	Investment holding
Lintao Environmental Protection Co., Ltd. ^# (廣州霖濤環保技術有限公司)	The PRC/ Mainland China 28 April 2015	RMB48,000,000	–	100	Design and construction and sale of equipment for wastewater projects
Hongrun Environmental Protection Co., Ltd. ^^# (廣州宏潤環保技術有限公司)	The PRC/ Mainland China 7 May 2015	RMB48,000,000	–	100	Design and construction and sale of equipment for wastewater projects
Guangzhou Great Water Environmental Protection Co., Ltd. ^^# (廣州中科建禹環保有限公司)	The PRC/ Mainland China 2 August 2001	RMB33,333,300	–	100	Design and construction and sale of equipment for environmental protection projects

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's subsidiaries are as follows: *(continued)*

Company name	Place and date of incorporation/ registration and place of business	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Trung Khoa Kien Vu Environmental Protection (Vietnam) Company Limited ("**Great Water Vietnam**")	Vietnam 22 August 2013	US$180,000	–	100	Design and construction for wastewater projects
Strong Wave Group Limited	British Virgin Islands 28 July 2016	US$1	100	–	Investment holding
Sino Tactics Limited[&] ("**Sino Tactics**")	British Virgin Islands 4 July 2016	US$100	–	92	Investment holding
Manford Incorporation Limited[&] ("**Manford**")	Hong Kong 1 September 2016	HK$100	–	92	Investment holding
Great Water Environmental Technology (Shanghai) Co., Ltd.[^#&] ("**Great Water Shanghai**") (建禹環保科技(上海)有限公司)	The PRC/ Mainland China 23 December 2016	RMB50,000,000	–	92	Design and construction and sale of equipment for environmental protection projects

* The name of this company was formerly known as Great Water EP Investment (China) Limited before 2016.

^ Registered as a wholly-foreign-owned enterprise under the PRC law.

^^ Registered as domestic enterprises under the PRC law.

& Sino Tactics, Manford and Great Water Shanghai are subsidiaries of non-wholly-owned subsidiary of the Company and accordingly, are accounted for as subsidiaries by virtue of the Company's control over it.

\# The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as these companies do not register any official English names.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs (which include all 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. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group has directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
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 HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participant would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, gross amounts due from contract customers, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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); and
- (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 parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.9%
Building improvements	20%
Electronic equipment	19%
Dedicated equipment	19%
Furniture and fixtures	19%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movement in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. On disposal of an investment property previously transferred from an owner-occupied property, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement — loans and receivables

Loans and receivables are non-derivative 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 amortisation is included in other income and gains in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*
The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement profit or loss and other comprehensive income.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and an interest-bearing bank borrowing.

Subsequent measurement — loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/ jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using 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.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts *(continued)*

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% to 21% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, as this is the principal currency of the economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

The Group's determination as to whether to accrue for deferred tax for withholding taxes from the distribution of dividends from a subsidiary in Mainland China according to the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiary in Mainland China will not be distributed in the foreseeable future, no deferred tax for withholding taxes is provided.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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, are described below.

Construction contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. As these contracts sometimes span over reporting periods, changes in the estimate of total contract costs or the inappropriate recording of costs around the year end could result in material amounts of revenue being recorded in the incorrect period.

The Group reviews and revises the estimates of both contract revenue and contract costs in each contract budget as the contract progresses and regularly reviews the progress of the contracts. The Group also monitors the progress payments from customers against the contract terms, and periodically evaluates the creditworthiness of the customers. If circumstances arise which make it likely that actual contract costs are different from budget contract costs, or a customer would default on all or part of its payments or otherwise fail to fulfil its performance obligations under the contract terms, the Group will reassess the outcome of the relevant contract and may revise the relevant estimates. The revision will be reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by the Group.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2016 was RMB20,788,000 (31 December 2015: RMB20,425,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for income taxes

Provision for income tax is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income tax and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

Impairment of trade and bills receivables

The Group assesses at the end of reporting period whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the aging of its receivable balances, debtors' creditworthiness, past payment history and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) EPC Projects segment comprises projects in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procurement and construction of water or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project;

(b) Construction Projects segment represents construction projects other than EPC projects, including a soil remediation project;

(c) Equipment Projects segment comprises projects in which an enterprise is engaged by a customer for procurement of necessary materials, equipment and machinery, installation, testing and commissioning of the equipment and machinery for the treatment facilities as well as provision of technical consulting services to upgrade or optimise the design of the water or wastewater treatment facilities pursuant to the contract; and

(d) the "others" segment comprises, principally, the Group's operation and maintenance services in which an enterprise of the Group is retained to operation and maintenance water or wastewater treatment facilities for a certain period for certain operation and maintenance fees on a monthly or quarterly basis.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, fair value gains from the Group's investment properties as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude tax recoverable, pledged deposits, cash and cash equivalents, property, plant and equipment, investment properties, prepaid land lease payments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, an interest-bearing bank borrowing and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016	EPC Projects *RMB'000*	Construction Projects *RMB'000*	Equipment Projects *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	**48,949**	**10,735**	**112,929**	**6,716**	**179,329**
Segment results	**7,936**	**1,848**	**45,925**	**4,408**	**60,117**
Reconciliation:					
Interest income					**83**
Unallocated gains					**10,166**
Corporate and other unallocated expenses					**(23,786)**
Finance costs					**(178)**
Profit before tax					**46,402**
Segment assets	**45,132**	**20,047**	**74,711**	**1,589**	**141,479**
Reconciliation:					
Corporate and other unallocated assets					**164,187**
Total assets					**305,666**
Segment liabilities	**25,886**	**6,396**	**31,090**	**15**	**63,387**
Reconciliation:					
Corporate and other unallocated liabilities					**65,076**
Total liabilities					**128,463**
Other segment information:					
Depreciation and amortisation					**736**
Capital expenditure*					**3,644**

* Capital expenditure consists of additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2015	EPC Projects *RMB'000*	Construction Projects *RMB'000*	Equipment Projects *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	5,840	12,041	144,275	4,829	166,985
Segment results	862	2,910	37,659	3,073	44,504
Reconciliation:					
Interest income					89
Unallocated gains					2,549
Corporate and other unallocated expenses					(26,112)
Finance costs					(618)
Profit before tax					20,412
Segment assets	19,643	2,752	62,029	2,482	86,906
Reconciliation:					
Corporate and other unallocated assets					140,166
Total assets					227,072
Segment liabilities	2,018	2,743	54,730	530	60,021
Reconciliation:					
Corporate and other unallocated liabilities					31,885
Total liabilities					91,906
Other segment information:					
Depreciation and amortisation					515
Capital expenditure*					2,504

* Capital expenditure consists of additions to property, plant and equipment.

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**172,363**	163,535
Vietnam	**6,966**	3,450
	179,329	166,985

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2016	2015
	RMB'000	*RMB'000*
Mainland China	**34,284**	26,791
Vietnam	**785**	8
	35,069	26,799

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue derived from sales to each of the major customers, including sales to a group of entities which are known to be under common control with these customers of EPC Projects and Equipment Projects segments, which accounted for 10% or more of the Group's revenue for the year is set out below:

	2016	2015
	RMB'000	*RMB'000*
Customer A	**37,795**	48,205
Customer B	**35,316**	31,525
Customer C	**29,217**	24,171

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; and rental income received and receivable from investment properties during the year.

An analysis of revenue, other income and gains is as follows:

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Income from construction contracting and related business		**59,684**	17,881
Sale of goods		**112,929**	144,275
Rendering of maintenance services		**6,716**	4,829
		179,329	166,985
Other income			
Bank interest income		**83**	89
Rental income		**1,642**	1,946
Government grants*			
— Related to income		**2,175**	15
Exchange gains, net		**874**	542
Others		**113**	23
		4,887	2,615
Gains			
Fair value gains on investment properties	14	**5,361**	319
Gain on disposal of items of property, plant and equipment		**1**	78
		5,362	397
		10,249	3,012

* Government grants for the year ended 31 December 2016 were received from the government authorities of the PRC in recognition of the Group's efforts in technology innovation in Guangzhou. The PRC Government grants for the year ended 31 December 2015 were received by a subsidiary of the Company in Mainland China as compensation for expenses already incurred. There were no unfulfilled conditions or contingencies in relation to the grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Note	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**67,004**	106,990
Cost of construction contracting		**49,900**	14,109
Cost of services provided		**2,308**	1,756
Depreciation	*13*	**711**	490
Amortisation of land lease payments	*15*	**25**	25
Auditor's remuneration		**1,233**	2,913
Employee benefit expense (excluding directors' and chief executive's remuneration as disclosed in note 8):			
Wages and salaries		**9,559**	6,888
Pension scheme contributions#		**1,066**	466
Other welfare expenses		**2,477**	1,883
		13,102	9,237
Foreign exchange differences, net		**(874)**	(542)
Changes in fair value of investment properties*	*14*	**(5,361)**	(319)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**420**	464
Bank interest income*	*5*	**(83)**	(89)
Gain on disposal of items of property, plant and equipment*		**(1)**	(78)

* Gains are included in "Other income and gains" and the losses are included in "Other expenses", as appropriate, in the consolidated statement of profit or loss and other comprehensive income.

\# As at the end of the years 2016 and 2015, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**178**	618

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company was incorporated on 25 March 2015.

Mr. Xie Yang and Mr. He Xuan Xi were appointed as executive directors of the Company on 25 March and 27 May 2015, respectively. Ms. Gong Lan Lan and Mr. Song Xiao Xing were appointed as non-executive directors of the Company on 25 March 2015. Mr. Tse Chi Wai, Mr. Ha Cheng Yong and Ms. Bai Shuang were appointed as independent non-executive directors of the Company on 24 November 2015. Mr. Xie Yang was appointed as the chief executive of the Company on 27 May 2015 and Mr. Tsui Kan Chun was appointed as the chief financial officer of the Company on 27 May 2015.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Fees	**891**	52
Other emoluments:		
Salaries, allowances and benefits in kind	**677**	428
Pension scheme contributions	**50**	48
	727	476
	1,618	528

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016	2015
	RMB'000	*RMB'000*
Mr. Tse Chi Wai	**103**	6
Mr. Ha Cheng Yong	**103**	6
Ms. Bai Shuang	**103**	6
	309	18

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors, non-executive directors and the chief executive

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2016				
Executive directors				
Mr. Xie Yang	**239**	**548**	**26**	**813**
Mr. He Xuan Xi	**137**	**129**	**24**	**290**
Non-executive directors:				
Ms. Gong Lan Lan	**103**	**–**	**–**	**103**
Mr. Song Xiao Xing	**103**	**–**	**–**	**103**
	582	**677**	**50**	**1,309**

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive *(continued)*

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2015				
Executive directors				
Mr. Xie Yang	14	223	26	263
Mr. He Xuan Xi	8	205	22	235
Non-executive directors:				
Ms. Gong Lan Lan	6	–	–	6
Mr. Song Xiao Xing	6	–	–	6
	34	428	48	510

There was no arrangement under which a director or the chief executive of the Company waived or agreed to waive any remuneration during the year or the prior year.

During the year and in prior years, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss at office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is the chief executive as well (2015: one director who was the chief executive as well), details of his remuneration are set out in note 8 above.

Details of the remuneration of the remaining four (2015: four) highest paid employees, who are neither a director nor chief executive of the Company are as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,173**	1,314
Pension scheme contributions	**118**	72
	2,291	1,386

9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
Nil to RMB1,000,000	**4**	4

During the year and in prior years, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the year (2015: Nil).

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("**CIT**") at the rate of 25% on the taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Guangzhou Great Water, since it was recognised as a High and New Technology Enterprise in Mainland China and a lower PRC CIT rate of 15% had been applied during the years ended 31 December 2016 and 2015.

Pursuant to the Vietnam Income Tax Law and the respective regulations, the subsidiary which operates in Vietnam is subject to CIT at a rate of 20% on the taxable income.

	2016	2015
	RMB'000	*RMB'000*
Current — Elsewhere other than Hong Kong	**6,652**	3,418
Deferred *(note 24)*	**1,529**	77
Total tax charge for the year	**8,181**	3,495

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2016

	Cayman Islands		BVI		Hong Kong		Mainland China		Vietnam		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax	(3,595)		(30)		(781)		51,140		(332)		46,402	
Tax at the statutory tax rate	–	–	–	–	(129)	16.5	12,785	25	(66)	20	12,590	27.1
Lower tax rate for specific province or enacted by local authority	–	–	–	–	–	–	(5,119)	(10)	–	–	(5,119)	(11)
Income not subject to tax	–	–	–	–	–	–	–	–	(1)	0.2	(1)	–
Expenses not deductible for tax	–	–	–	–	–	–	28	0.1	5	(1.5)	33	–
Tax rate differential	–	–	–	–	–	–	536	1	–	–	536	1.2
Tax losses not recognised	–	–	–	–	129	(16.5)	13	–	–	–	142	0.3
Tax charge/(credit) at the Group's effective rate	–	–	–	–	–	–	8,243	16.1	(62)	18.7	8,181	17.6

2015

	Cayman Islands		Hong Kong		Mainland China		Vietnam		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax	(334)		(535)		21,107		174		20,412	
Tax at the statutory tax rate	–	–	(88)	16.5	5,277	25	38	22	5,227	25.6
Lower tax rates for specific province or enacted by local authority	–	–	–	–	(2,112)	(10)	–	–	(2,112)	(10.3)
Effect on opening deferred tax of increase in rates	–	–	–	–	182	0.9	–	–	182	0.9
Income not subject to tax	–	–	–	–	–	–	(2)	(1.2)	(2)	–
Expenses not deductible for tax	–	–	–	–	87	0.4	–	–	87	0.4
Tax rate differential	–	–	–	–	32	0.1	–	–	32	0.1
Tax losses utilised from previous periods	–	–	–	–	–	–	(9)	(5.3)	(9)	–
Tax losses not recognised	–	–	88	(16.5)	2	–	–	–	90	0.4
Tax charge at the Group's effective rate	–	–	–	–	3,468	16.4	27	15.5	3,495	17.1

11. DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB38,223,000 (2015: RMB16,917,000), and the weighted average number of ordinary shares of 300,000,000 (2015: 229,726,027) in issue during the year, as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

The calculation of basic and diluted earnings per share is based on:

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic/diluted earnings per share calculation:	**38,223**	16,917

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic/diluted earnings per share calculation	**300,000,000**	229,726,027

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Building improvements *RMB'000*	Electronic equipment *RMB'000*	Dedicated equipment *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2016								
At 31 December 2015 and at 1 January 2016:								
Cost	3,624	1,091	654	197	754	3,169	1,135	10,624
Accumulated depreciation	(411)	(1,083)	(507)	(185)	(693)	(1,529)	–	(4,408)
Net carrying amount	3,213	8	147	12	61	1,640	1,135	6,216
At 1 January 2016, net of accumulated depreciation	3,213	8	147	12	61	1,640	1,135	6,216
Additions	–	–	74	1,976	113	1,141	340	3,644
Transfers from investment property *(note 14)*	4,475	–	–	–	–	–	–	4,475
Disposals	–	–	–	–	–	(5)	–	(5)
Depreciation provided during the year	(69)	(8)	(38)	(127)	(14)	(455)	–	(711)
Exchange realignment	–	–	–	–	–	18	–	18
At 31 December 2016, net of accumulated depreciation	7,619	–	183	1,861	160	2,339	1,475	13,637
At 31 December 2016:								
Cost	8,099	1,091	728	2,173	867	4,324	1,475	18,757
Accumulated depreciation	(480)	(1,091)	(545)	(312)	(707)	(1,985)	–	(5,120)
Net carrying amount	7,619	–	183	1,861	160	2,339	1,475	13,637

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings *RMB'000*	Building improvements *RMB'000*	Electronic equipment *RMB'000*	Dedicated equipment *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2015								
At 1 January 2015:								
Cost	3,624	1,091	565	197	754	1,919	20	8,170
Accumulated depreciation	(342)	(972)	(449)	(149)	(621)	(1,385)	–	(3,918)
Net carrying amount	3,282	119	116	48	133	534	20	4,252
At 1 January 2015, net of accumulated depreciation	3,282	119	116	48	133	534	20	4,252
Additions	–	–	89	–	–	1,300	1,115	2,504
Disposals	–	–	–	–	–	(50)	–	(50)
Depreciation provided during the year	(69)	(111)	(58)	(36)	(72)	(144)	–	(490)
At 31 December 2015, net of accumulated depreciation	3,213	8	147	12	61	1,640	1,135	6,216
At 31 December 2015:								
Cost	3,624	1,091	654	197	754	3,169	1,135	10,624
Accumulated depreciation	(411)	(1,083)	(507)	(185)	(693)	(1,529)	–	(4,408)
Net carrying amount	3,213	8	147	12	61	1,640	1,135	6,216

At 31 December 2016 and 2015, the Group's buildings were pledged to secure general banking facilities granted to the Group (note 23).

14. INVESTMENT PROPERTIES

	2016	2015
	RMB'000	*RMB'000*
Carrying amount at 1 January	**20,425**	20,106
Transfer to owner-occupied property *(note 13)*	**(4,475)**	–
Transfer to prepaid land lease payments *(note 15)*	**(523)**	–
Net gain from a fair value adjustment	**5,361**	319
Carrying amount at 31 December	**20,788**	20,425

The Group's investment properties are situated in Mainland China, which consist of one industrial building and one land use right. The land use right is held under a long term lease and the building is owned by a subsidiary of the Group.

The Group's investment properties were revalued on 31 December 2016 based on valuations performed by Roma Appraisals Limited, an independent professionally qualified valuer, at RMB20,788,000.

Each year, the Group's property manager and the chief financial officer decide and, after approval from the directors, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year around the year end when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 28 to the financial statements.

At 31 December 2016 and 2015, the Group's investment properties were pledged to secure general banking facilities granted to the Group (note 23).

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurement for:				
Industrial properties	**–**	**–**	**20,788**	**20,788**

	Fair value measurement as at 31 December 2015 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement for:				
Industrial properties	–	–	20,425	20,425

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: nil).

14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

As at 31 December 2016

	Valuation technique	Significant unobservable input	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB20,788,000

As at 31 December 2015

	Valuation technique	Significant unobservable input	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB20,425,000

The direct comparison approach
Under the direct comparison approach, the fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristics of the properties held for own use, which include the location, size, shape, view, floor level, year of completion and other factors collectively, to arrive at the market price.

The key input was the market price. A significant increase/(decrease) in the market price would result in a significant increase/(decrease) in the fair value of the properties held for own use.

15. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**162**	187
Transfer from investment properties *(note 14)*	**523**	–
Recognised during the year	**(25)**	(25)
Carrying amount at 31 December	**660**	162
Current portion included in prepayments, deposits and other receivables	**(16)**	(4)
Non-current portion	**644**	158

At 31 December 2016 and 2015, the Group's leasehold land was pledged to secure general banking facilities granted to the Group (note 23).

16. INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	**77**	130

17. GROSS AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2016 RMB'000	2015 RMB'000
Gross amounts due from contract customers	**34,466**	1,608
Contract costs incurred plus recognised profits less recognised losses to date	**68,455**	16,178
Less: Progress billings	**(33,989)**	(14,570)
	34,466	1,608

18. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**84,330**	72,604
Bills receivable	**100**	–
	84,430	*72,604*

Trade receivables represented the outstanding contracted value for the sale of goods, construction contracts and rendering of services receivable from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly on credit. Tax invoices are issued to the customers based on agreed schedules and the Group's trade receivables are subject to various credit terms. The credit period granted to the customers is 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. For retention monies receivable in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the transaction date, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one month	**25,345**	37,005
One to three months	**11,685**	8,082
Three months to one year	**24,802**	7,444
One to two years	**15,501**	17,526
	77,333	70,057
Retention monies receivable	**7,097**	2,547
	84,430	72,604

18. TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired, with tax invoice unissued	**31,682**	6,549
Neither past due nor impaired, with tax invoice issued	**52,203**	65,677
Less than one month past due	**–**	193
One to three months past due	**–**	185
Over three months past due	**545**	–
	84,430	72,604

Receivables that were neither past due nor impaired, with tax invoice unissued, represent receivables which arose from revenue recognised but not yet issued tax invoice and were neither past due nor impaired at the end of the reporting period.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Transfers of financial assets

At 31 December 2016, the Group presented or endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to certain suppliers and banks with an aggregate carrying amount of RMB1,000,000. The Derecognised Bills have a maturity of six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2016, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 *RMB'000*	2015 *RMB'000*
Prepayments	**22,426**	12,957
Deposits and other receivables	**3,192**	1,182
	25,618	14,139

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 *RMB'000*	2015 *RMB'000*
Cash and bank balances	**126,006**	111,792
Less:		
Pledged deposits	**(1,035)**	–
Cash and cash equivalents	**124,971**	111,792
Denominated in:		
RMB	**50,711**	47,428
HK$	**58,769**	58,714
US$	**15,590**	5,644
Vietnam Dong ("**VND**")	**936**	6
	126,006	111,792

The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The VND is also not freely convertible into other currencies, however, under the State Bank of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Within one month	**30,827**	4,405
One to three months	**4,718**	21,428
Three months to one year	**8,147**	18,213
Over one year	**15,059**	11,566
	58,751	55,612

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days.

22. OTHER PAYABLES AND ACCRUALS

	2016 *RMB'000*	2015 *RMB'000*
Other payables	**13,863**	10,796
Advances from customers	**4,657**	4,422
	18,520	15,218

Other payables are non-interest-bearing and repayable on demand.

23. INTEREST-BEARING BANK BORROWING

	2016			2015		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loan — secured	**4.79**	**2017**	**40,000**	5.89	2016	15,000

	2016 *RMB'000*	2015 *RMB'000*
Analysed into:		
Bank loan payable within one year	**40,000**	15,000

23. INTEREST-BEARING BANK BORROWING *(continued)*

Notes:

(a) The Group's banking facilities amounting to RMB88,890,000 (2015: RMB40,000,000), of which RMB40,000,000 (2015: RMB15,000,000) had been utilised as at the end of the reporting period, are secured by:

(i) mortgages over the Group's investment properties situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of RMB20,788,000 (2015: RMB20,425,000) *(note 14)*;

(ii) mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB7,619,000 (2015: RMB3,213,000) *(note 13)*; and

(iii) mortgages over the Group's prepaid lease payments, which had an aggregate carrying value at the end of the reporting period of RMB660,000 (2015: RMB162,000) *(note 15)*.

(b) The bank loan is denominated in RMB.

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Fair value adjustments arising from investment properties *RMB'000*
Gross deferred tax liabilities at 1 January 2015	3,310
Deferred tax charged to profit or loss during the year *(note 10)*	80
Gross deferred tax liabilities at 31 December 2015 and 1 January 2016	3,390
Deferred tax charged to profit or loss during the year *(note 10)*	1,340
Gross deferred tax liabilities at 31 December 2016	4,730

24. DEFERRED TAX *(continued)*

Deferred tax assets

	Losses available for offsetting against future taxable profits	Provision for accruals	Total
	RMB'000	*RMB'000*	*RMB'000*
Gross deferred tax assets at 1 January 2015	–	454	454
Deferred tax credited to profit or loss during the year *(note 10)*	–	3	3
Gross deferred tax assets at 31 December 2015 and 1 January 2016	–	457	457
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	62	(251)	(189)
Exchange realignment	2	–	2
Gross deferred tax assets at 31 December 2016	64	206	270

The Group has tax losses arising in Hong Kong of RMB781,000 (2015: RMB535,000) (note 10) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of a subsidiary of the Group established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB73,102,000 at 31 December 2016 (2015: RMB34,440,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. SHARE CAPITAL AND SHARE PREMIUM

	2016		2015	
	HK$000	***RMB'000 equivalent***	*HK$000*	*RMB'000 equivalent*
Issued and fully paid: 300,000,000 ordinary shares of HK$0.01 each	**3,000**	**2,397**	3,000	2,397

A summary of movements in the Company's share capital and share premium is as follows:

	Notes	**Number of shares in issue**	**Share capital** *RMB'000*	**Share premium** *RMB'000*	**Total** *RMB'000*
Issue of shares on incorporation	*(a)*	3	–	–	–
Issue of shares in the Reorganisation	*(b)*	224,999,997	1,776	45,694	47,470
Issue of shares pursuant to IPO	*(c)*	75,000,000	621	58,965	59,586
Share issue expenses	*(c)*	–	–	(5,841)	(5,841)
At 31 December 2015 and 2016		300,000,000	2,397	98,818	101,215

Notes:

(a) On the date of incorporation, three ordinary shares of HK$0.01 each were issued and allotted by the Company to its shareholders.

(b) Pursuant to an ordinary resolution passed on 2 June 2015, a total of 224,999,997 ordinary shares of HK$0.01 each were issued and allotted by the Company to the shareholders.

(c) In connection with the Company's IPO, 75,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.96 per share for a total cash consideration, before expenses, of HK$72,000,000 (equivalent to RMB59,586,000), dealings in the shares of the Company on the Stock Exchange commenced on 9 December 2015.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 57 to 58 of the financial statements.

27. PLEDGE OF ASSETS

Details of the Group's general banking facilities, which are secured by the assets of the Group, are included in notes 13, 14 and 15, respectively, to the financial statements.

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from three to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**1,807**	1,993
In the second to fifth years, inclusive	**7,229**	7,229
After five years	**3,847**	5,654
	12,883	14,876

(b) As lessee

The Group leases certain of its office properties in Vietnam and Mainland China under operating lease arrangements. The leases for the properties are negotiated for a term of one to two years.

At 31 December 2016, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**113**	97
In the second to fifth years, inclusive	**8**	97
	121	194

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Purchases of items of equipment for projects	**77,305**	50,082
Capital contributions payable to a joint venture company	**46,000**	–
	123,305	50,082

30. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2015: nil).

31. RELATED PARTY TRANSACTIONS

(a) The Group's balances with the directors are included in other payables (note 22 to the financial statements). All the balances are unsecured, interest-free and repayable on demand. Details are as follows:

	2016 RMB'000	2015 RMB'000
Mr. Xie Yang	**100**	–
Mr. He Xuan Xi	**47**	–
Ms. Gong Lan Lan	**103**	6
Mr. Song Xiao Xing	**103**	6
Mr. Tse Chi Wai	**103**	6
Mr. Ha Cheng Yong	**103**	6
Ms. Bai Shuang	**103**	6
	662	30

(b) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**2,720**	607

Further details of directors' and the chief executive's emoluments are disclosed in note 8 to the financial statements.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables:		
Trade and bills receivables	**84,430**	72,604
Financial assets included in prepayments, deposits and other receivables	**3,192**	1,182
Pledged deposits	**1,035**	–
Cash and cash equivalents	**124,971**	111,792
	213,628	185,578
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**58,751**	55,612
Financial liabilities included in other payables and accruals	**13,863**	10,796
Interest-bearing bank borrowing	**40,000**	15,000
	112,614	81,408

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2016, the fair values of the Group's financial assets and financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, an interest-bearing bank borrowing and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee periodically for annual financial reporting.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loan and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The monetary assets and transactions of the subsidiaries of the Group are principally denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$, US$ and VND exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	*RMB'000*	*RMB'000*
2016			
If the RMB weakens against the VND	**5**	**(3)**	**(3)**
If the RMB strengthens against the VND	**(5)**	**3**	**3**
If the RMB weakens against the US$	**5**	**779**	**663**
If the RMB strengthens against the US$	**(5)**	**(779)**	**(663)**
If the RMB weakens against the HK$	**5**	**2,936**	**2,496**
If the RMB strengthens against the HK$	**(5)**	**(2,936)**	**(2,496)**
2015			
If the RMB weakens against the VND	5	41	35
If the RMB strengthens against the VND	(5)	(41)	(35)
If the RMB weakens against the US$	5	7	6
If the RMB strengthens against the US$	(5)	(7)	(6)
If the RMB weakens against the HK$	5	2,938	2,497
If the RMB strengthens against the HK$	(5)	(2,938)	(2,497)

* Excluding retained profits

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 57% (2015: 53%) of the Group's trade and bills receivables were due from the Group's five largest customers.

Liquidity risk

The Group's policies are to regularly monitor the current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments (i.e., principal and interest), was as follows:

31 December 2016

	On demand *RMB'000*	**Less than 3 months** *RMB'000*	**3 to less than 12 months** *RMB'000*	**Total** *RMB'000*
Trade payables	**58,751**	**–**	**–**	**58,751**
Financial liabilities included in other payables and accruals	**13,863**	**–**	**–**	**13,863**
Interest-bearing bank borrowing	**–**	**–**	**41,898**	**41,898**
	72,614	**–**	**41,898**	**114,512**

31 December 2015

	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	Total *RMB'000*
Trade payables	55,612	–	–	55,612
Financial liabilities included in other payables and accruals	10,796	–	–	10,796
Interest-bearing bank borrowing	–	15,135	–	15,135
	66,408	15,135	–	81,543

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowing, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

The gearing ratios as at the end of the reporting periods were as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Interest-bearing bank borrowing	**40,000**	15,000
Trade payables	**58,751**	55,612
Financial liabilities included in other payables and accruals	**13,863**	10,796
Less: Cash and cash equivalents	**(124,971)**	(111,792)
Net debt	**(12,357)**	(30,384)
Total capital	**177,205**	135,166
Capital and net debt	**164,848**	104,782
Gearing ratio	**(7%)**	(29%)

35. EVENT AFTER THE REPORTING PERIOD

On 18 January 2017, the Group entered into the sale and purchase agreements with an independent third party to acquire a total of six units with a total saleable floor area of 815.54 square metres at 2801 to 2803, 2805 to 2807 on the 28th floor of Shanghai International Commerce Centre (上海城開國際商業中心), which located at No. 166 Min Hong Road, Minghang Qu, Shanghai, the PRC (the "**Properties**"), at an aggregate consideration of RMB40,000,000 (excluding tax). Pursuant to the agreements, the acquisition was completed on 18 January 2017. The Properties are intended to serve as office space for the Group.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**53,478**	50,372
Total non-current assets	**53,478**	50,372
CURRENT ASSETS		
Prepayments, deposits and other receivables	**59,897**	58,750
Total current assets	**59,897**	58,750
CURRENT LIABILITIES		
Other payables and accruals	**972**	329
Total current liabilities	**972**	329
NET CURRENT ASSETS	**58,925**	58,421
TOTAL ASSETS LESS CURRENT LIABILITIES	**112,403**	108,793
NET ASSETS	**112,403**	108,793
EQUITY		
Share capital	**2,397**	2,397
Reserves *(note)*	**110,006**	106,396
TOTAL EQUITY	**112,403**	108,793

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2015	–	–	–	–
Loss for the year	–	–	(334)	(334)
Issue of shares in the Reorganisation	45,694	–	–	45,694
Issue of shares pursuant to IPO	58,965	–	–	58,965
Share issue expenses	(1,534)	–	–	(1,534)
Exchange differences on translation of foreign operations	–	3,605	–	3,605
At at 31 December 2015	103,125	3,605	(334)	106,396
Loss for the year	–	–	(3,595)	(3,595)
Exchange differences on translation of foreign operations	–	7,205	–	7,205
At 31 December 2016	103,125	10,810	(3,929)	110,006

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2017.

FINANCIAL SUMMARY

	For the year ended 31 December			
	2013	2014	2015	**2016**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
RESULTS				
Revenue	62,816	122,222	166,985	**179,329**
Profit before tax	9,745	26,607	20,412	**46,402**
Income tax expense	(1,528)	(3,895)	(3,495)	**(8,181)**
Profit for the year	8,217	22,712	16,917	**38,221**
Attributable to:				
Owners of the parent	8,217	22,712	16,917	**38,223**
Non-controlling interests	–	–	–	**(2)**
	8,217	22,712	16,917	**38,221**

	As at 31 December			
	2013	2014	2015	**2016**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS, LIABILITIES AND NON CONTROLLING INTERESTS				
Total assets	72,361	127,238	227,072	**305,666**
Total liabilities	(36,886)	(63,348)	(91,906)	**(128,463)**
Total equity	35,475	63,890	135,166	**177,203**
Equity attributable to owners of the parent	35,475	63,890	135,166	**177,205**
Non-controlling interests	–	–	–	**(2)**
Total equity	35,475	63,890	135,166	**177,203**