GREAT WATER

GREAT WATER HOLDINGS LIMITED

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

Annual Report 2017

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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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Guangzhou City
PRC

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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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Cayman Islands

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 2017.

ANNUAL REVIEW

The shares of the Company (the "**Shares**") were listed on the GEM of the Stock Exchange on 9 December 2015 by way of placing (the "**Placing**") (the "**Listing**"). The successful Listing has enhanced the Group's profile and its future development potential in the domestic wastewater environmental protection industry, resulting in a solid foundation for the Group's future development.

For the year ended 31 December 2017, the revenue of the Group increased by approximately RMB68.3 million, or approximately 38.0%, to approximately RMB247.6 million as compared to the year of 2016. The increase in revenue was primarily because the Group had recognised approximately RMB75.4 million in revenue from the engineering, procurement and construction projects ("**EPC Projects**"), approximately RMB39.2 million from construction projects other than EPC Projects ("**Construction Projects**"), and approximately RMB121.9 million from equipment projects ("**Equipment Projects**") for the year ended 31 December 2017, compared to approximately RMB48.9 million from EPC Projects, approximately RMB10.7 million from Construction Projects, and approximately RMB112.9 million from Equipment Projects for the year of 2016.

Profit for the year ended 31 December 2017 amounted to approximately RMB41.8 million, which represented an increase of approximately RMB3.6 million, or approximately 9.2%, as compared to the year of 2016.

OUTLOOK

In 2017, the PRC government further strengthened its governance on environmental protection by consecutively introducing environmental policies such as the 13th Five-Year Development Plan for the National Environmental Protection Standards (《國家環境保護標準「十三五」發展規劃》), the New Water Pollution Prevention and Control Law of the People's Republic of China （新版《中華人民共和國水污染防治法》), the Law on Prevention and Control of Soil Pollution of the People's Republic of China (Draft)(《中華人民共和國土壤污染防治法（草案）》). Meanwhile, supervision and inspection on environmental protection carried out by the central authorities have become norms, while the findings after the supervision and inspection have reflected that the major environmental problems are concentrated on the pollution of river areas, insufficiency of wastewater treatment facilities, over-emission of smoke and dust, etc. Therefore, we expect increasing demand for environmental protection solutions engendered by environmental problems over China.

In view of the PRC government's further emphasis on environmental protection, realization of the concept of "Clear waters and lush mountains are invaluable assets", the actual needs of "upgrading and reconstructing" environmental protection projects in the PRC, the Group believes that, the number of environmental protection facility projects with renewed requirements and a higher standard as well as that of integrated and centralized projects related to environmental protection treatment are expected to increase substantially, promoting more environmental protection technologies with higher efficiency and more energy saving features. On the other hand, integration of upstream and downstream segments in the environmental protection industry, in-depth cooperation and mutual assistance among corporates in different sectors under the environmental protection industry and stronger cooperation between suppliers and clients for environmental protection services are the future development trends of the environmental protection industry. In addition, environmental protection service providers vary in terms of operating capability such as technology level and management level, resulting in the inability of certain environmental protection service providers to meet the current market demand, for which the environmental protection industry has to be self-regulated in order to work in a more orderly and sustainable way.

CHAIRMAN'S STATEMENT

In 2017, the Group, being a specialist providing environmental protection services, continues to consolidate its market position in its current business sectors in the southern part of China. In the meantime, the Group also eagerly develops its markets in both the central and eastern part of China, by making efforts in the Group's traditional businesses such as wastewater treatment, water supply and soil remediation for industrial use and civil services, so that it can provide services of high quality and better efficiency to more sizeable clients.

Moreover, the Group actively reacts to the "One Belt, One Road" policy introduced by the PRC government and strives to develop overseas markets. Given that the recent overseas investment cases of PRC enterprises and also the Group's existing construction experience on overseas environmental protection projects, by means of providing high quality and more efficient services to sizable clients, the Group strives to become a preferred environmental protection service provider of those clients when they are making their overseas investments.

Furthermore, the Group is committing more resources to research and development for the continuous enhancement of its existing environmental protection technologies and the research and development of more advanced environmental protection technologies to meet market demand in the future. In 2017, the Group obtained several new patents, which involve aspects such as wastewater treatment and soil remediation. The Group is of the view that the Group's sustainable competitiveness in the environmental protection industry would be maintained by continuous investment on research and development, and its achievements on newer innovations.

In conclusion, the Group considers that, consolidating the Group's existing environmental protection businesses, exploring a broader market region and diversifying into other environmental protection operations by various means to provide environmental protection services of higher quality and better efficiency to clients would be the main direction of the Group's future development.

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, clients, suppliers and sub-contractors for their continued support to the Group. I would also like to express my heartfelt appreciation to the management and all the staff for their diligence and valuable contribution throughout the year.

Xie Yang
Chairman

Guangzhou, the PRC
21 March 2018

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 either 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 the 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.

For the year ended 31 December 2017, the revenue of the Group increased by approximately RMB68,221,000, or approximately 38.0%, to approximately RMB247,550,000 as compared to the year of 2016. The increase in revenue was primarily because the Group had recognised approximately RMB75,418,000 in revenue from EPC Projects, approximately RMB39,166,000 from Construction Projects, and approximately RMB121,947,000 from Equipment Projects for the year ended 31 December 2017, compared to approximately RMB48,949,000 from EPC Projects, approximately RMB10,735,000 from Construction Projects, and approximately RMB112,929,000 from Equipment Projects for the year of 2016.

Profit for the year ended 31 December 2017 amounted to approximately RMB41,750,000, which represented an increase of approximately RMB3,529,000, or approximately 9.2%, as compared to the year of 2016.

As at 31 December 2017, save for O&M Projects, the Group had the following uncompleted projects on hand: (i) 4 EPC Projects; and (ii) 10 Equipment Projects, with an aggregate value of approximately RMB135.0 million. The Directors expect that the abovementioned uncompleted projects on hand will be fully completed by the end of 2018.

OUTLOOK

In view of the PRC government's further emphasis on environmental protection, realization of the concept of "Clear waters and lush mountains are invaluable assets", the actual needs of "upgrading and reconstructing" environmental protection projects in the PRC, the Group believes that, the number of environmental protection facility projects with renewed requirements and a higher standard as well as that of integrated and centralized projects related to environmental protection treatment are expected to increase substantially, promoting more environmental protection technologies with higher efficiency and more energy saving features. On the other hand, integration of upstream and downstream segments in the environmental protection industry, in-depth cooperation and mutual assistance among corporates in different sectors under the environmental protection industry and stronger cooperation between suppliers and clients for environmental protection services are the future development trends of the environmental protection industry. In addition, environmental protection service providers vary in terms of operating capability such as technology level and management level, resulting in the inability of certain environmental protection service providers to meet the current market demand, for which the environmental protection industry has to be self-regulated in order to work in a more orderly and sustainable way.

In 2017, the Group, being a specialist providing environmental protection services, continues to consolidate its market position in its current business sectors in the southern part of China. In the meantime, the Group also eagerly develops its markets in both the central and eastern part of China, by making efforts in the Group's traditional businesses such as wastewater treatment, water supply and soil remediation for industrial use and civil services, so that it can provide services of high quality and better efficiency to more sizeable clients.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, the Group actively reacts to the "One Belt, One Road" policy introduced by the PRC government and strives to develop overseas markets. Given that the recent overseas investment cases of PRC enterprises and also the Group's existing construction experience on overseas environmental protection projects, by means of providing high quality and more efficient services to sizable clients, the Group strives to become a preferred environmental protection service provider of those clients when they are making their overseas investments.

Furthermore, the Group is committing more resources to research and development for the continuous enhancement of its existing environmental protection technologies and the research and development of more advanced environmental protection technologies to meet market demand in the future. In 2017, the Group obtained several new patents, which involve aspects such as wastewater treatment and soil remediation. The Group is of the view that the Group's sustainable competitiveness in the environmental protection industry would be maintained by continuous investment on research and development, and its achievements on newer innovations.

In conclusion, the Group considers that, consolidating the Group's existing environmental protection businesses, exploring a broader market region and diversifying into other environmental protection operations by various means to provide environmental protection services of higher quality and better efficiency to clients would be the main direction of the Group's future development.

FINANCIAL REVIEW

Operating Revenue

For the year ended 31 December 2017, the Group's operating revenue amounted to approximately RMB247,550,000, representing an increase of approximately 38.0% or RMB68,221,000 over the corresponding period in 2016.

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 appoints sub-contractors to build the facilities. The Group is also engaged 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 2017, the revenue generated from EPC Projects relating to wastewater and drinking water treatment projects under construction and related business was approximately RMB75,418,000 (2016: approximately RMB48,949,000), representing an increase of approximately 54.1% or RMB26,469,000 as compared to the corresponding period in 2016. The increase in revenue from EPC Projects for the year ended 31 December 2017 was primarily attributable to the recognition of revenue of approximately RMB73,441,000 from three large-sized wastewater treatment projects. The rest of the revenue, in the amount of approximately RMB1,977,000, was from other two EPC Projects. In contrast, the revenue from EPC Projects for the year of 2016 was attributable to three large-sized wastewater treatment projects for approximately RMB47,764,000 and four small-sized wastewater water treatment projects for approximately RMB1,185,000.

— *Revenue relating to Construction Projects*

For the year ended 31 December 2017, the revenue generated from Construction Projects was approximately RMB39,166,000 (2016: approximately RMB10,735,000), representing an increase of approximately 2.6 times or RMB28,431,000 as compared to the corresponding period in 2016. The increase in revenue from Construction Projects for the year ended 31 December 2017 was mainly attributable to the recognition of approximately RMB21,405,000 in revenue from a wastewater treatment facility construction project in Guangzhou. The rest of the revenue, in the amount of approximately RMB17,761,000, was from fifteen Construction Projects. In contrast, only revenue from seven small-sized Construction Projects were recognised for the year of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

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 customers in identifying, evaluating and selecting different equipment options before the procurement team comes into play.

For the year ended 31 December 2017, the revenue from the segment of Equipment Projects amounted to approximately RMB121,947,000 (2016: approximately RMB112,929,000), representing an increase of approximately 8.0% or approximately RMB9,018,000 as compared to the corresponding period in 2016. The increase in revenue from Equipment Projects for the year ended 31 December 2017 was primarily attributable to the recognition of revenue of approximately RMB104,007,000 from seven large-sized Equipment Projects. The rest of the revenue, in the amount of approximately RMB17,940,000, was from other eleven small-sized Equipment Projects. In contrast, the revenue from Equipment Projects for the year of 2016 was attributable to four large-sized Equipment Projects for approximately RMB96,758,000 and six small-sized Equipment Projects for approximately RMB16,171,000.

Others

The revenue from segments of other projects included those attributable to O&M Projects and technical advisory services. As at 31 December 2017, the Group had one wastewater treatment O&M Project and five drinking water treatment O&M Projects on hand.

For the year ended 31 December 2017, the income from maintenance services amounted to approximately RMB11,019,000 (2016: approximately RMB6,716,000), representing an increase of approximately 64.1% or approximately RMB4,303,000 as compared to the corresponding period in 2016. The increase was mainly attributable to the recognition in the year ended 31 December 2017 of (i) approximately RMB7,821,000 in revenue from nine technical advisory projects, representing an increase of approximately RMB4,045,000 over the corresponding period in 2016; and (ii) approximately RMB3,198,000 in revenue from O&M Projects, representing an increase of approximately RMB258,000 over the corresponding period in 2016.

Other income and gains

For the year ended 31 December 2017, other income and gains amounted to approximately RMB12,682,000 (2016: approximately RMB10,249,000), representing an increase of approximately 23.7% or approximately RMB2,433,000 as compared to the corresponding period in 2016. The increase was mainly due to the receipt of government grants from the PRC government authorities of approximately RMB6,489,000 in the year ended 31 December 2017, representing an increase of approximately RMB4,314,000 as compared to the corresponding period in 2016 partly set off by the exchange loss of approximately RMB1,335,000 and decrease on fair value gains on investment properties of approximately RMB2,799,000 this year.

Cost of sales

For the year ended 31 December 2017, the cost of sales of the Group amounted to approximately RMB176,858,000 (2016: approximately RMB119,212,000), representing an increase of approximately 48.4% or approximately RMB57,646,000 as compared to the corresponding period in 2016.

The increase in cost of sales was mainly due to a significant increase in subcontracting costs of EPC Projects and Construction Projects. Accompanying a significant increase in operating revenue from EPC Projects and Construction Projects, the cost of subcontracting increased from approximately RMB47,238,000 for the corresponding period in 2016 to approximately RMB51,477,000 for the year ended 31 December 2017, and the material costs also increased from approximately RMB68,728,000 for the corresponding period in 2016 to approximately RMB121,974,000 for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

For the year ended 31 December 2017, the Group achieved gross profit of approximately RMB70,692,000 (2016: approximately RMB60,117,000), representing an increase of approximately 17.6% or approximately RMB10,575,000 as compared to the corresponding period in 2016. The increase in gross profit of the Group was mainly attributable to the increase in revenue for the year ended 31 December 2017 by approximately 38.0% as compared to the corresponding period in 2016, partially offset by the increase in cost of sales in the same period. The gross profit margin of the Group for the year ended 31 December 2017 decreased from 33.5% for corresponding period in last year to 28.6%, mainly because the EPC Projects and Construction Projects of the Group had overall lower gross profit margins, and this is related to the higher level of subcontracting cost being incurred in civil construction and equipment installation for EPC Projects and Construction Projects.

Selling and distribution expenses

For the year ended 31 December 2017, selling and distribution expenses of the Group amounted to approximately RMB3,173,000 (2016: approximately RMB2,521,000), representing an increase of approximately 25.9% or approximately RMB652,000 as compared to the corresponding period in 2016. The increase was mainly due to increase in salary and welfare of approximately RMB330,000, increase in transportation expenses of approximately RMB55,000, increase in travelling expenses of approximately RMB146,000 and increase in entertainment expenses of approximately RMB113,000.

Administrative expenses

For the year ended 31 December 2017, the administrative expenses of the Group amounted to approximately RMB26,444,000 (2016: approximately RMB21,158,000), representing an increase of approximately 25.0% or approximately RMB5,286,000 as compared to the corresponding period in 2016. The increase in the administrative expenses was mainly attributed to (i) increase in salary and welfare of approximately RMB3,365,000; (ii) increase in office expenses of approximately RMB254,000; (iii) increase in entertainment expenses of approximately RMB132,000; (iv) increase in research and development cost of approximately RMB1,030,000; and (v) increase in depreciation expenses of approximately RMB538,000.

Profit for the year

For the year ended 31 December 2017, the profit for the year amounted to approximately RMB41,750,000 (2016: RMB38,221,000), representing an increase of approximately RMB3,529,000 or 9.2% as compared to the corresponding period in 2016.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 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 2017, the total equity attributable to the Shareholders was approximately RMB215,384,000 (2016: approximately RMB177,203,000). The Group continued to maintain a strong financial position with cash and cash equivalents amounted to approximately RMB108,086,000 (2016: approximately RMB124,971,000). The Group's net current asset was approximately RMB155,121,000 (2016: approximately RMB146,594,000). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2017, 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 2017, the Group had general banking facilities amounted to approximately RMB99,890,000. The total borrowing drawn down from the banking facilities of the Company as at 31 December 2017 amounted to RMB59,890,000 (2016: RMB40,000,000). 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 2017, the Group's gearing ratio (being the net debt of the Group divided by its total capital plus net debt) was 32% (2016: N/A). 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

The Group formed a joint venture company ("**JV Company**") (together with its subsidiary, the "**JV Group**") with Best Well Ventures Limited ("**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 its 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. 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 of properties with a total saleable floor area of 815.54 square metres each at the addresses of 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**"), at an aggregate consideration of RMB40,000,000 (excluding tax)(equivalent to approximately HK$44,444,000). The acquisition of the Properties was completed on 18 January 2017. The Properties are intended to serve as office space for the JV Group. For details of the acquisition of the Properties, please refer to the announcement of the Company dated 18 January 2018. Save as disclosed above, there were no other significant investments held by the Group as at 31 December 2017.

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 2017.

COMMITMENTS

The contractual operating commitments of the Group were primarily related to the purchases of items of equipment for projects. As at 31 December 2017, the Group's contractual operating commitments amounted to approximately RMB102,399,000 (2016: approximately RMB77,305,000).

As at 31 December 2017, there was capital commitment amounting to approximately RMB46,000,000 for the Group (2016: 46,000,000).

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 2017, the Group did not have material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2017, the Group did not hedge any exposure to foreign exchange risk.

ADVANCES TO AN ENTITY

As at 31 December 2017, the Group did not provide any advances to any entity outside the Group.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDERS

As at 31 December 2017, there was no pledging of Shares by its controlling shareholders (the "**Controlling Shareholders**").

LOAN AGREEMENTS OF THE GROUP

As at 31 December 2017, the Group did not enter into any loan agreement with covenants relating to specific performance of the Controlling Shareholders.

During the year of 2017, 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 2017, the Group did not provide any financial assistance and guarantees to affiliated companies of the Group.

SHARE OPTION SCHEME

As at 31 December 2017, the Group did not adopt any share option scheme.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed 88 employees (2016: 88 employees). Employee costs amounted to approximately RMB21.8 million for the year ended 31 December 2017 (2016: approximately RMB14.7 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 up to date 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2017 is set out below:

Business strategies	Implementation plan	Sources of funding	Actual progress up to 31 December 2017
(i) Strengthen the Group's market position	Identify new office locations in the 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$1.7 million had been fully utilised as at 31 December 2017 as set up costs of the Shanghai Branch, including employees' salaries, office rental payments and office expenses.
	Open a new office in the central region of the PRC	Listing proceeds of approximately HK$0.5 million	
	Recruit marketing and administrative staff	Listing proceeds of approximately HK$1.1 million	
	Purchase office premises in the northern region of the PRC	Listing proceeds of approximately HK$10.5 million	Great Water Environmental Technology (Shanghai) Company Limited ("**Great Water Shanghai**"), a non-wholly owned subsidiary of the Company, purchased an office premises in Shanghai for an aggregate consideration of approximately RMB40,000,000 on 18 January 2017, details of which are set out in the report of the Company dated 18 January 2017. The listing proceeds of approximately HK$10.5 million had been fully utilised as at 31 December 2017.
	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$1.2 million	The Group launched several promotions of its wastewater treatment business and invited potential customers to visit the Group's completed projects. As at 31 December 2017, the listing proceeds of approximately HK$2.2 million had been fully utilised as related expenses of these activities, such as accommodation expenses and transportation fees for related employees and potential customers.
	Conduct marketing activities in the central and northern regions of the PRC	Listing proceeds of approximately HK$1.0 million	
(ii) Expand the Group's soil remediation project business	Participate in industry events to identify business opportunities and invite potential customers to visit the Group's completed projects	Listing proceeds of approximately HK$2.6 million	The Group launched several promotions of its soil remediation business by, for example, participating in soil remediation industry meetings organised by local governments and touring leading soil remediation companies for technical communication. We also invited potential customers to visit the Group's completed projects. As at 31 December 2017, the listing proceeds of approximately HK$2.6 million had been fully utilised as related expenses of these activities, such as exhibition fees, accommodation expenses and transportation fees for related employees and customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Business strategies	Implementation plan	Sources of funding	Actual progress up to 31 December 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 thermal reactor, heat exchanger, vacuum pumps and filtration system, high pressure pumps, centralised control system, various electronic testing equipment, pressure filters and all kinds of filters and blenders	Listing proceeds of approximately HK$12.1 million	As at 31 December 2017, the listing proceeds of approximately HK$12.1 million had been fully utilised to purchase laboratory equipment and research and development materials for laboratory tests and pilot runs.
(iv) Upgrade the Group's qualification in construction and design engineering	Initial planning	Internal resources of the Group	The planning has been completed and the implementation of the plan has started 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$2.0 million	A number of experienced engineering and technical staff have been recruited in 2016 and the first half of 2017 in order to upgrade the Group's construction and design engineering capabilities. As at 31 December 2017, the listing proceeds of approximately HK$2.0 million had been fully utilised 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 new PRC textile manufacturer in Vietnam	Listing proceeds of approximately HK$12.0 million	The listing proceeds of HK$12.0 million had 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 had been fully utilised to the fund the Dongguan EPC Project in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

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 used for purposes which are in line 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 2017 were used as follows:

	Planned use of net proceeds as shown in the Prospectus	**Actual use of net proceeds from the date of the Listing to 31 December 2017**	**Unutilised amount of net proceeds as at 31 December 2017**
	HK$'000	*HK$'000*	*HK$'000*
Strengthen the Group's market position	14,400	14,400	–
Expand the Group's soil remediation project business	2,600	2,600	–
Enhance the Group's research and development capabilities	12,100	12,100	–
Upgrade the Group's qualification in construction and design engineering	2,000	2,000	–
Fund the working capital for EPC Projects	17,600	17,600	–
	48,700	48,700	–

Notes:

(a) 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 2017.

BUSINESS REVIEW

The business performance of the Group for the year ended 31 December 2017 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 2017 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 2015 by the way of Placing.

PRINCIPAL ACTIVITY

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 2017 are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activity during the year.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the consolidated statement on pages 56 to 58.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statement is set out on page 118. 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 2017 are set out in the consolidated statement of changes in equity on pages 59 to 60 and on page 117, respectively.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2017 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 RMB51.6 million (including portions of the buildings and investment properties) as at 31 December 2017. Details of the investment properties are set out in note 14 to the consolidated financial statements.

As at 31 December 2017, the valuation amounts of the property interests of the Group were RMB51.6 million, in which the valuation amounts of the Group's building for own use were RMB23.4 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 2017, the difference of accumulated depreciation between the two types of calculation was approximately RMB98,000 for the period from 1 January 2017 to 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had 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 2017, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB97.1 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, sales to the Group's largest customer accounted for 20.1% (2016: 21.1%) of the total revenue. For the year ended 31 December 2017, the percentage of revenue derived from the Group's five largest customers in aggregate was 68.6% (2016: 72.6%).

For the year ended 31 December 2017, purchases from the Group's largest supplier accounted for 11.2% (2016: 21.9%) of the total cost of sales. For the year ended 31 December 2017, purchases from the Group's five largest suppliers in aggregate accounted for 37.7% (2016: 52.8%) 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 2017.

REPORT OF THE DIRECTORS

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. 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.

REPORT OF THE DIRECTORS

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 also plan to expand to other fields of environmental protection. 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 2017 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.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICY AND PERFORMANCE

Since the establishment in 2001, the Company has been working in the environmental protection industry in China for 16 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 2017, 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 takes 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 requires 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.

REPORT OF THE DIRECTORS

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 9 May 2017)
Mr. He Xuan Xi	(appointed on 27 May 2015 and being re-elected on 9 May 2017)

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 9 May 2017)

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 2017, 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.

REPORT OF THE DIRECTORS

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 2017.

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 Ventures Limited (collectively, the "**Covenantors**") has entered into a deed of non-competition (the "**Deed of Non-Competition**") on 24 November 2015 in favour of the Company (for itself as and as trustee for each of its subsidiaries), 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 Covenantors 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 Covenantors 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.

Each of the Covenantors confirmed to the Company that they have complied with the Deed of Non-Competition for the year ended 31 December 2017.

In order to ensure the Covenantors have complied with the Deed of Non-Competition, the following actions have been taken by the Company and the Directors:

(i) the Company required each Covenantors to give confirmation to the Company on an annual basis as to whether each of them has complied with the Deed of Non-Competition;

(ii) each of the Covenantors provided to the Company a written confirmation which confirmed their respective compliance with the Deed of Non-Competition for the year ended 31 December 2017 and stated that each of them has not entered into any business which may be in competition with the core business carried on by the Group;

REPORT OF THE DIRECTORS

(iii) the independent non-executive Directors reviewed the compliance of each of the Covenantors with the Deed of Non-Competition during the year ended 31 December 2017 and confirmed to their best knowledge, that the terms of the Deed of Non-Competition has been duly complied with for the year ended 31 December 2017;

(iv) as at the date of this Annual Report, the Directors are not aware of any other matters which would affect the compliance of the Deed of Non-Competition for the year ended 31 December 2017.

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 2017.

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 2017, 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(s)	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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2017, 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 2017, 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 of shareholder(s)	Capacity	Number of Ordinary Shares *(Note 1)*	Approximate percentage of the total number of Shares in issue
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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2017, 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 2017, 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 2017 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 subsidiaries 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 2.4 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 2017. Details of related party transactions of the Group during the year ended 31 December 2017 are set out in note 32 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 were no connected transactions of the Group during the year ended 31 December 2017.

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 sufficient amount of public float as required under the GEM Listing Rules.

EVENTS AFTER 31 DECEMBER 2017

There are no important events affecting the Group that have occurred since the end of the year ended 31 December 2017.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled to be held on Wednesday, 9 May 2018. 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 Wednesday, 9 May 2018. 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 Thursday, 3 May 2018.

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 2017 have been audited by Ernst & Young.

By Order of the Board
Xie Yang
Chairman

21 March 2018

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 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 2017. Mr. Xie Yang ("**Mr. Xie**") is chairman and the chief executive officer of the Company. 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 2017 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.

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 2017.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2017, 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.

CORPORATE GOVERNANCE 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 identities 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.

CORPORATE GOVERNANCE REPORT

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 AND GENERAL MEETINGS

A summary of all Directors' attendance at the Board and Board committee meetings and general meetings held during the year 2017 are set out in the following table:

	Attendance/Number of meetings				
Name of Director	**Board meeting**	**Audit Committee meeting**	**Nomination Committee meeting**	**Remuneration Committee meeting**	**Annual general meeting**
Mr. Xie Yang	5/5	N/A	1/1	1/1	1/1
Mr. He Xuan Xi	5/5	N/A	N/A	N/A	1/1
Ms. Gong Lan Lan	5/5	N/A	N/A	N/A	0/1
Mr. Song Xiao Xing	5/5	N/A	N/A	N/A	0/1
Ms. Bai Shuang	5/5	6/6	1/1	1/1	0/1
Mr. Ha Cheng Yong	5/5	6/6	N/A	1/1	0/1
Mr. Tse Chi Wai	5/5	6/6	1/1	N/A	0/1

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.

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 2017 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 2017, 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.

CORPORATE GOVERNANCE REPORT

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 2017, 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 2017, 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 2017, 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 2017, the Audit Committee held six 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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, 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 2017, 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 2017, 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 2017, 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. Kang Zhao Yu (the Group's executive general manager) 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.

CORPORATE GOVERNANCE REPORT

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 55 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.

CORPORATE GOVERNANCE REPORT

SENIOR MANAGEMENT'S REMUNERATION

The remuneration payment of the senior management of the Group (excluding the Directors) in the year ended 31 December 2017 falls within the following band:

	Number of senior management
RMB289,000 to RMB833,000	
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 2017. The remuneration paid or payable to Ernst & Young for services rendered for the year ended 31 December 2017 was as follows:

	RMB'000
Audit services	1,189

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 2017, 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".

CORPORATE GOVERNANCE REPORT

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).

CORPORATE GOVERNANCE REPORT

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 2017, there had been no significant change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

This is the second environmental, social & governance ("**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 report covers the majority of the Group's business in China related to ESG for the reporting period from 1 January 2017 to 31 December 2017.

Through the preparation of this ESG report, the Company realises that not only does the report serve as a channel to communicate with stakeholders, but it is also an important tool to summarise the Company's sustainability performance and to aid in evaluating its sustainability practice. Furthermore, this is also the first year where the environmental key performance indicators ("**KPIs**") are disclosed, which further help us to track our performance systematically. Therefore, the Company will continue this ESG reporting as part of the strategy to improve the Company's sustainability performance continuously.

For any feedback on the Company's ESG report, please email to ir@greatwater.com.cn.

SUSTAINABILITY MANAGEMENT

Since the establishment in 2001, the core business of the Company is to help clients of the Group in China to reduce environmental emissions for the protection of the environment. 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, including soil remediation, solid and hazardous wastes management, sludge treatment, air pollutants treatment, as well as integrated environmental services.

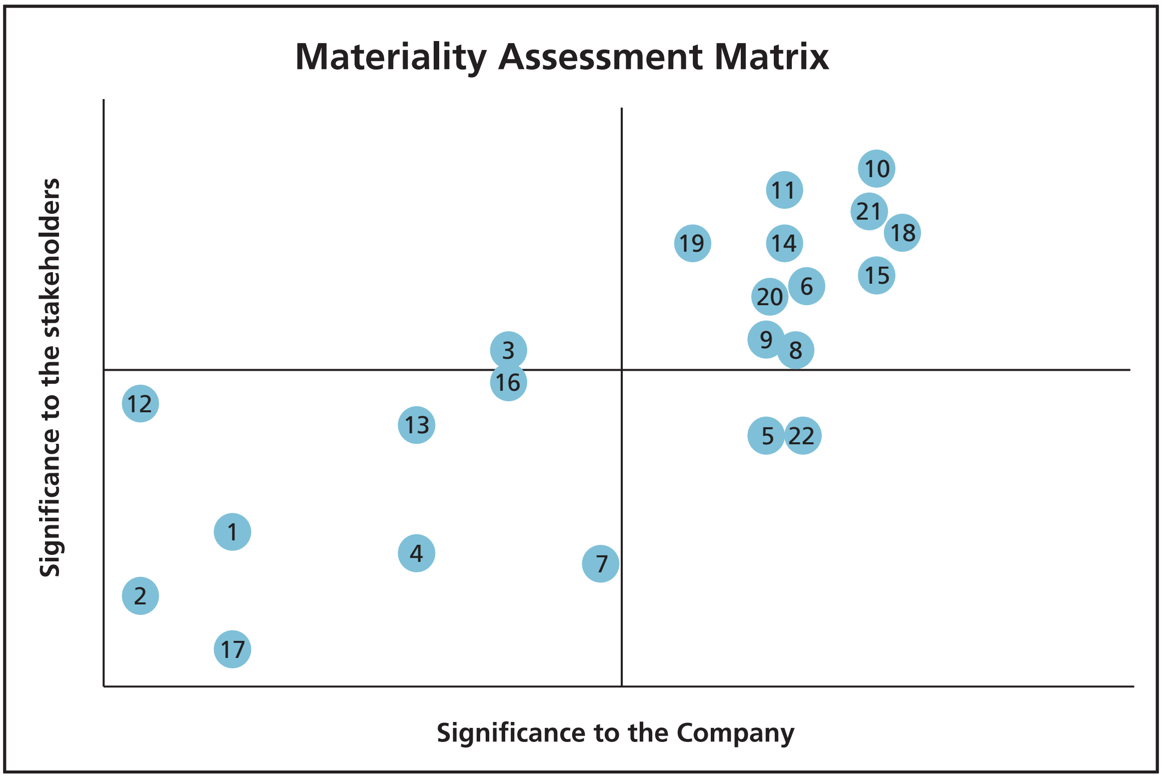
Throughout the 16 years of the history of the Group, the concept of sustainability has been deeply ingrained in the Company's corporate value. Guided by its corporate value and with the aid of a thorough Integrated Management System ("**IMS**"), which is in conformity with the international environmental management system ISO14001:2015 and quality management system ISO9001:2015 standards in 2016, the Company not only focuses on pursuing continuous success in business development for the Group, but more importantly, cares for a better environment and the needs of the next generation.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Company places great emphasis on stakeholder engagement as it believes meeting the expectations of the stakeholders is crucial to the future of its business. Hence, their feedbacks play a crucial role in formulating the future sustainability strategy. Through multiple communication channels, including the annual general meetings, the corporate website, the dedicated customer services channels, and through the internal communication channels for employees, the Board will listen and respond to stakeholders' concerns related to the performance in the ESG areas.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

To further understand the stakeholders' expectations of the ESG performance, the Company has conducted an online survey via a third party to collect their opinions and suggestions on 22 ESG-related issues such as air emissions, customer privacy, and labour rights. Both internal and external stakeholders, including customers, employees, investors, suppliers, and the community, were engaged. Their concerns were reviewed and a matrix graph was plotted as below to indicate issues that are of high importance from the stakeholders' perspective.



ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

ENVIRONMENT		OPERATION	
1	Air emission	14	Customer satisfaction
2	Greenhouse gas emission	15	Product quality and safety
3	Hazardous waste generation	16	Product and service labelling
4	Non-hazardous waste generation	17	Marketing communications
5	Energy use	18	Intellectual properties
6	Water use	19	Customer privacy
7	Use of materials	20	Supply chain management
		21	Ethical business
WORKPLACE		**COMMUNITY**	
8	Labour rights	22	Community support
9	Diversity and equal opportunities		
10	Occupational health and safety		
11	Employee development		
12	Child labour		
13	Forced labour		

The top five key ESG issues identified are related to occupational health and safety, ethical business, intellectual properties, employee development, and product quality and safety. With reference to the survey results, the Board will keep the stakeholders' concerns and priorities in mind when determining the Company's future sustainability framework and look for opportunities for continuous improvement.

OUR PEOPLE

Employees are the most valuable assets as the Company fully relies on them to carry out its business activities. With the business principle of "improve ourselves, improve the environment, and improve the world", the Company understands that it is fundamental to continuously better itself first before it can improve others. Therefore, the Company pays the upmost care about its employees and strives to provide a pleasant workplace where people are valued and treasured.

Rights and benefits of employees

The Company gives competitive remuneration packages to the Company's employees in line with the market, and ensure that the Company is in full compliance with all applicable laws and regulations related to employment including compensation and dismissal, working hours, and wages in China. The Company has developed a comprehensive "Human Resource Management Policy" and an "Employee Handbook", both of which detail all the necessary rules and procedures related to human resources management.

A number of benefits and welfares are provided to the employees based on different needs and characteristics of their job duties. For example, subsidies are given to employees who unavoidably have to work in challenging working conditions with unpleasant odour or high temperature outdoor working environments; allowances and subsidies are given to employees to compensate for any work-related and living expenses such as transportation, meals, and telecommunications.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

During the recruitment of employees, the Company upholds the principles of equal opportunity, anti-discrimination, and diversity to ensure a fair recruitment process is applied to all candidates, so that only the most suitable candidate is selected and promoted. Likewise, through its comprehensive “Performance Appraisal System” led by the Appraisal Committee, the performances of employees are reviewed regularly. Staff members are rewarded and promoted fairly based on their contributions and work performance. In addition, various kinds of bonuses are offered to employees as rewards for their outstanding performance, contribution to the Company, and safety performance.

When employees resign or upon dismissal by the employment unit due to redundancy, the reasons for resignation and time of departure are required to be provided. After responsible department head and the human resources department approve the dismissal, the employment contract can be terminated.

The Group has regulated working hours and forbade forced labour or forced overtime work as set out in the employment agreements. Moreover, the Group has established the rest periods system according to national laws and regulations. Employees are entitled to national statutory holidays, paid annual leave, marriage leave, maternity leave and nursery leave, compassionate leave, etc. during their term of employment in the Company.

The Company also strongly prohibits any child and forced labour in our workplace, and ensures that the employees work consensually. The Company did not breach any relevant laws and regulation in respect of employment and child or forced labour practices in 2017.

Training and development

The Company has developed an “Employee Training Management System” to manage all training related activities for different levels of staff within the Company, with the following objectives:

- To establish a corporate culture of continuous learning and development;
- Properly manage all training with the Company and align them with the developments of the Company;
- Continuously develop employees’ knowledge base;
- Strengthen staff technical skills;
- Raise overall quality of the business; and
- Increase the Company’s competitiveness and internal bonding.

Based on the results of training needs surveys and assessments, corresponding monthly and annual training plans are designed for each employee. 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 encourages 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 provided equal opportunity in promotion based on appraisal on their work performance. Apart from performance, as a means of promoting learning and education, employees also need to attain a certain number of training hours per year in order to be promoted.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

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 Management System to govern the identification, implementation, and operation of all necessary safety measures. The Safety Management System stresses the importance of safety prevention and education in order to prevent potential safety hazards.

A Safety Committee, which comprised of senior management and staff members who had received professional safety training, oversees the implementation of safety measures in the Company. The Safety Committee holds meetings regularly to evaluate the performance of the Company in safety, and continuously review its safety management policies.

Out of all identified safety risks in a working environment, the Company pays particular attention to fire hazard and is determined to raise employees’ awareness towards fire safety in the workplace. The Company has fire safety training for 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 our research and development (“**R&D**”) laboratory during handling of chemicals and when conducting experiments. The Company has established a “Laboratory Management Plan” which provides rules and procedures to govern the safety of laboratories. This Plan covers areas such as chemical and hazardous waste handling, fire and explosion emergency response, and staff injuries. For example, the Company has strict procedures for handling toxic chemicals, and has prepared the Material Safety Data Sheet (“**MSDS**”) 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. To ensure employees’ work safety, safety training and proper personal protective equipment are provided. Hazardous wastes are treated with special cares and in lines with the necessary instructions such that they can only be discharged/disposed of safely, so as to bring the least harm to people and the environment. There was no breach of relevant laws and regulations by the Company relating to provision of safe working environment and protecting employees from occupational hazards during 2017.

Likewise, during the construction of treatment facilities for the Group’s clients, safety always comes first. To this end, sub-contractors are required to sign a safety agreement which commits them to complying with the Company’s safety requirements, including safety risk identification and evaluation, safety training and inspection, etc.

THE BUSINESS

The Company performs the activities based on the business principles of “Being practical, hard-working, innovative and to serve”. 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. The following sections will discuss how the Company puts the beliefs into practices.

Integrity in business

The Company adheres to ethical principles when conducting its business activities. Strict ethical rules, policies, and guidance especially on fair competition, anti-corruption, and conflict-of-interest are stipulated in the Employee Handbook and effectively implemented. A whistle-blower system has been put in place which allows employees to directly report on any corruption acts, misconduct, or malpractice related to the Company to relevant personnel for investigation if necessary. The head of human resources directly handles the report of the investigation, and initiates further action by the Board where appropriate. Furthermore, the Audit Committee of the Company holds regular meetings to safeguard the integrity of the Company.

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 of 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 to/from 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 the Company's business partners for any advantages or favours in the business. There was no breach of any relevant law and regulation relating to bribery, extortion, fraud and money laundering by the Company during 2017. The Company did not breach any relevant laws and regulations in respect of anti-corruption.

Conflict of interests

Employees, who are 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 affect the trading price of the stock.

Supplier and sub-contractor management

The Company values highly the quality and performance of our suppliers and subcontractors. Following the "Procurement Control Procedure", the Company performs supplier assessment for all potential suppliers, and conducts annual assessment for existing suppliers to ensure their supplies and services fulfil our expectations. Apart from the consideration of quality and cost, the Company also takes into consideration heavily 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.

The Company implements a "Sub-Contractor Management System" for the selection and management of the sub-contractors. Through the system, only qualified parties with good reputation, strong technical expertise, competence, and with good management records are selected and assigned for the work. Our engineering department is responsible for managing the sub-contractors for the execution of the projects and ensures the quality of the work can meet the required standards.

Customer-centred business

The Company strives to pursue excellence in our products and services, with the aim of achieving maximum customer satisfaction. Apart from providing the best support to customers on their environmental issues in their business operations, the Company has also developed a systematic approach on quality management following the international standard ISO9001, and has set up procedures from project design to after-sales service. For example, a warranty is provided to ensure that the installed wastewater treatment facilities are operated appropriately and effluent quality meets the government standards.

A customer satisfaction survey is conducted annually to continuously check if the Company's products and services can meet customers' expectations. The valuable opinions obtained are used to review and improve our 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 pursue continuous improvement in the services.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Protection of privacy and intellectual property

Protection of privacy information is also essential to gain trust from clients. The Company has put policies in place and has an "Intellectual Property Management Regulation" and the "Information Security Management Procedure" 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 the Company's and its customers' benefits. In addition, the Company has allocated April as the "Patent's Law Promotion Month", in which different activities were held to promote the Patent's Law in China, as well as other standards and regulations of intellectual property rights protection to employees.

There were no breach of relevant laws and regulations relating to health and safety, advertising, labelling, and privacy matters in connection to the products and service provided by the Group.

THE ENVIRONMENT

With the corporate mission of "Contribute to the environmental protection in China for a cleaner sky and water", the Company strives to create positive impacts on the environment as our core business. As an environmental protection engineering service provider, the Company aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing innovative environmental protection solutions to customers.

Its business nature does not generate major environmental emissions nor require the heavy use of natural resources, as its operations are mainly related to helping our clients to install environmental facilities at their premises. Its major environmental footprints are thus related to office related ones, which have been tracked and are detailed in the following sections.

Under the IMS which is in conformance to ISO14001 certified Environmental Management System, the Company is committed to utilising resources efficiently, reducing waste generation and minimising negative impacts on the environment within its operations through formulating its goals and corresponding actions.

Target	Practical Action and policies
1. 100% compliance rate of wastewater discharge	— Strengthen the monitoring of water quality — Appoint qualified third-party unit to conduct monthly investigation — Ensure meeting regulatory standards before discharge
2. 100% compliance rate of sludge discharge	— Ensure effective rainproof and leak-proof work
3. 100% correct handling rate of hazardous waste	— Establish chemical Material Safety Data Sheet ("**MSDS**") database — Offer training on proper handling of chemicals — Provide protective equipment
4. Zero fire accident	— Configure with sufficient fire-safety equipment — Conduct training and fire drills — Inspect the power system and circuit periodically — Supervise maintenance work closely

The IMS also sets out the management framework, with relevant rules and procedures for proper control on the activities. The Company further ensures the compliance with all applicable laws and regulations by closely following relevant updates in China. During the Year, the Company did not breach any relevant laws and regulations in respect of environmental protection and which relate to air and greenhouse gases emissions, discharges into water and land, and hazardous and non-hazardous wastes generation.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

The Group considers environmental protection and preserving natural resources as an important component of its sustainable and responsible business. The Company has also established an Environmental Action Group, which is responsible for identifying and constantly evaluating environmental issues arising from operations including work carried out in the R&D building, and during the provision of operation and maintenance ("**O&M**") for the clients at project sites. The evaluation results act as a base to establish the improvement strategy in pursuing sustainable development.

Air Emissions & Greenhouse Gas Emissions

Due to the nature of its operation, which is mainly office-based, the Company only generates and emits a small amount of air pollutants, mainly generated by the use of vehicles. During the period a total of 14.56 kg of air pollutants, including nitrogen oxides ("**NOx**"), sulphur oxides ("**SO_2**") and particulate matter ("**PM**"), were emitted.

Air Pollutant	Emission	Unit
NOx	13.31	kg
SO_2	0.27	kg
PM	0.98	kg
Total	**14.56**	**kg**

In response to the challenge of climate change, the Company believes that it is its responsibility to cut carbon footprints. Actions and initiatives to reduce the greenhouse gas ("**GHG**") emissions are detailed in later sections of this report.

The Group's main sources of GHG emissions come from the consumption of vehicle fuel, refrigerant, and electricity for the operations. During the Year, the Company emitted a total of 3,725.58 tCO_2e of GHG, with an intensity of 42.34 tCO_2e per employee. With reference to the GHG inventory, the Group will continue to look for opportunities to lower GHG emissions within the operation.

Greenhouse Gases	Emission	Unit
Scope 1 — Direct emissions		
Vehicle fuel	48.42	tCO_2e
Refrigerant	3,575.00	tCO_2e
Scope 2 — Energy indirect emissions		
Electricity	102.16	tCO_2e
Total	3,725.58	tCO_2e
Intensity	42.34	tCO_2e per employee

Resource Management

Using resources wisely and responsibly not only helps to lower the operating cost, but also to reduce the carbon footprints. As the Company believes that it is the joint responsibility of all of us to achieve resource utilisation, the Company aims to raise the environmental protection awareness among employees by promoting green office practices such as using recycled paper and posting reminders near switches.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Energy Usage

The Company is committed to reducing the energy usage and thus the corresponding GHG emissions by promoting the idea of "green" office to the employees. For instance, signs are placed near the switches to remind employees to switch off electrical appliances when they are not in use.

During the Year, the Company consumed a total of 114,026.00 kWh of electricity and 18,217.15 litres of vehicle fuel, with an intensity of 1,295.75 kWh per employee and 207.01 litre of vehicle fuel per employee respectively.

Resource	Consumption	Unit
Electricity	114,026.00	kWh
Intensity	1,295.75	kWh per employee
Vehicle fuel	18,217.15	L
Intensity	207.01	L per employee

Water Resource

Knowing how precious the Company's water resource is, it is our responsibility to manage the use of water in an efficient way. In the Company's premises, signs to encourage water-saving are placed in washrooms to remind the employees to conserve water. During the Year, the Company consumed a total of 2,268.30 m^3 of freshwater, with an intensity of 25.78 m^3 per employee. Due to the nature of the operations, the Company did not discharge any industrial wastewater.

Water Resource	Consumption	Unit
Freshwater	2,268.30	m^3
Intensity	25.78	m^3 per employee

Packaging Materials

The Company operations involve the use of a limited amount of packaging materials. Major types of packaging consumed by the Company are paper, plastic, and wood. The total amount of packaging materials used during the Year is 1.12 tonnes, with an intensity of 0.01 tonnes per employee.

Packaging Materials	Consumption	Unit
Paper	0.40	tonnes
Plastic	0.02	tonnes
Wood	0.70	tonnes
Total	1.12	tonnes
Intensity	0.01	tonnes per employee

Waste Management

The Company has issued a clear guidance regarding the management of both hazardous and non-hazardous wastes. In our office, limited amount of non-hazardous wastes such as paper and domestic waste are collected at designated locations by qualified waste collectors. As the amount of non-hazardous wastes produced are insignificant, the Company will further collaborate with the waste collectors in the future for collection of relevant data on the amount of wastes produced and its intensity. Employees are given sufficient guidance on how to and where to dispose of wastes. In addition, recycling companies are appointed to treat recyclables such as printer ink toner so as to lessen the burden on the landfill.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

During the year ended 31 December 2017, the Company did not generate any hazardous waste. Potentially, hazardous waste may be produced from the R&D laboratory during experiments. In case hazardous wastes are produced, they are labelled, stored, treated, and transported with strict compliance with related laws and regulations in China.

Environmental Protection During Implementing Engineering solution

With the Company's extensive experience in the environmental engineering services and investment in R&D, over the years the Company has devoted its resources to providing over 100 customers in China with an extended range of engineering solutions. These range from wastewater and drinking water treatment to other businesses including soil remediation and waste disposal, with an aim of helping our clients to solve the environmental issues in their operations.

Constructions of all these treatment facilities may cause negative impacts on the environment if not managed properly. By closely following the rules and procedures contained in the IMS, the Company ensures that all construction work is strictly in compliance with the applicable environmental laws and regulations in the China, by the following measures:

— Environmental impact assessment is carried out and relevant approval is obtained prior to the construction of the facilities where required;

— During the construction of the project, environmental monitoring and auditing are conducted to ensure implementation of proper pollution control measures; and

— A final inspection is carried out before the operation of the facilities.

The Company also provides O&M services to the owners of environmental facilities, where the Company strives to ensure the smooth operation and effectiveness of the facilities in dealing with the environmental issues. For example, the prime objective of O&M services for wastewater treatment facilities is to ensure that the effluent quality meets the government's water quality standard. In doing so, the Company has engaged third-party agents to monitor the effluent quality regularly. Likewise, for handling of sewage sludge from wastewater treatment, to avoid any environmental pollution, special measures such as effective leak-proofing and rain-proofing 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 COMMUNITY

The Company strongly believes that as a listed, public company, it needs to shoulder the social responsibilities, and give back to the society particularly in the areas of social, environmental, education, and community. Since 2016, the Company has established the "Community Investment Policy", and plans to set up a team to organise and participate in community activities with the aim of contributing back to the community.

In August 2017, a team of seven colleagues from the Company has taken part in a school donation campaign for a primary school located in a remote, hilly area in Guangdong Province, which was urgently in need of resources and financial support. Apart from giving monetary donations, the Company has organised the donations from the staff members and bought facilities for better cooking in the school.

Looking ahead, the Company will continue to invest in the community and contribute to the wellbeing of the society.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. XIE Yang (**謝楊先生**), aged 54, 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**"), Great Water EP Investment (China) Limited ("**Great Water Hong Kong**"), Sino Tactics Limited ("**Sino Tatics**"), Manford Incorporation Limited ("**Manford**") and Great Water Shanghai 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 2017, 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 36, 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 bachelors 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 41, 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, Lintao EP Sino Tatics, Manford and Great Water Shanghai. 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's degree in corporate management in June 1998. She further obtained a master's degree in accountancy at Shanghai University of Finance and Economics in December 2007.

As at 31 December 2017, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. SONG Xiao Xing (宋曉星先生), aged 37, 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, Lintao EP, Sino Tatics, Manford and Great Water Shanghai. 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's degree 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 2017, 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 46, 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's degree in laws in July 1992.

Mr. HA Cheng Yong (哈成勇先生), aged 59, is an independent non-executive Director. Mr. Ha has 33 years of experience in research and application of chemistry and natural sciences. Since August 2015, Mr. Ha has been the Deputy Chief Officer (副主任) of Yinchuan Technology Innovation & Incubation Center of China Academy of Sciences (a business unit jointly organized by China Academy of Sciences and Yinchuan City Government and designated to improve the transference and transformation of the technological achievements of China Academy of Sciences in Yichuan), mainly responsible for monitoring the whole process of technological achievement transference and providing consultation and training for new technology applications. During the period from January 2012 to October 2015, 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's 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)).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TSE Chi Wai (謝志偉先生), aged 50, 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 graduated from the University of Hong Kong in June 1989 with a bachelor's 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. Mr. Tse is also an executive director of Jih Sun Financial Holding Company Limited, the shares of which are listed in Taiwan and an independent non-executive director of Hong Kong listed companies, namely China Environmental Technology Holdings Limited (Stock Code: 646) Huarong Investment Stock Corporation Limited (Stock Code: 2277); Chong Kin Group Holdings Limited (Stock Code: 1609) and Winto Group (Holdings) Limited (Stock Code: 8238). Mr. Tse was an independent non-executive director of Greens Holdings Limited ("**Greens Holdings**") (Stock Code: 1318) from March 2015 to November 2015 and Sunac China Holdings Limited (Stock Code: 1918) from December 2012 to December 2017.

During the period between March 2015 and November 2015, Mr. Tse was an independent non-executive director of Greens Holdings. a company incorporated in the Cayman Islands and principally engaged in the manufacture and supply of heat transfer products and solutions. 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, had been adjourned several times to 3 August 2016 after 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; and (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. 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.

The following particulars relating to Mr. Tse are disclosed pursuant to Rule 17.50(2)(n)(iv) of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**");

In October 2017, based on findings made by the Listing Committee of the Stock Exchange ("**Listing Committee**") in respect of Sunac and on Sunac's acceptance without admission of any liabilities and for the purpose of settlement of the relevant findings the Listing Committee censured Sunac for breaching Rule 2.13(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for failure to ensure the announcements made in February 2015 and May 2015 were accurate and complete in all material aspects and not misleading. Please refer to the Listing Committee's news issued on 26 October 2017 for further details.

Although Mr. Tse was an independent non-executive director of Sunac at the relevant time, Mr. Tse was not personally subject to any investigation process-disciplinary action or censure from the Listing Committee or any other competent authority in respect of the above matters.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. KANG Zhao Yu (康兆雨先生), aged 40, is the Group's executive general manager. Mr. Kang joined the Group as the head of our engineering and technology department in February 2008 and was promoted to the Group's vice president in 2011 with over 13 years of experience in environmental protection technology and engineering. Mr. Kang is responsible for assisting the Group's general manger in overseeing every aspect of the Group's daily operation. 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's 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 35, is the Group's vice general manager, responsible for the Group's market development. Mr. Feng joined the Group in January 2016. 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's degree in chemical engineering and technology.

Mr. WANG Lei (王磊先生), aged 35, is the Group's vice general manager, responsible for technical works such as engineering, procurement, design, research and development. Mr. Wang joined the Group in June 2016. 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's degree in environmental science. He then obtained a master's 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 36, is the vice director of the Group's marketing department, primarily responsible for assisting the Group's vice president in commencing market expansion. Mr. Xiang joined the Group in September 2005 and has served the Group for over 12 years. Mr. Xiang was promoted to the supervisor, the deputy manager and the manager of the material department in 2009, 2011 and 2013 respectively, and then was promoted to 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. CHEN Shao Juan (**陳少娟女士**), aged 39, 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's 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 39, 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 44, 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 (now changed the company name to Beijing Gas Blue Sky 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. (now changed the company name to Shanghai Dasheng Agriculture Finance Technology 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's degree in accountancy in May 1997. He further obtained a master's 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 56 to 117, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

INDEPENDENT AUDITOR'S REPORT

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: • Testing the calculation of the determination of stage of completion by checking the sale and cost documentation, including contracts, acceptance notes, final completion notes, sales invoices, purchase invoices and bank slips; • Testing 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 • Checking the calculation of revenue recognition based on the 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. 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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the 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 Lee Mee Kwan, Helena.

Ernst & Young
Certified Public Accountants
Hong Kong
21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**247,550**	179,329
Cost of sales		**(176,858)**	(119,212)
Gross profit		**70,692**	60,117
Other income and gains	5	**12,682**	10,249
Selling and distribution expenses		**(3,173)**	(2,521)
Administrative expenses		**(26,444)**	(21,158)
Other expenses		**(12)**	(107)
Finance costs	7	**(2,862)**	(178)
PROFIT BEFORE TAX	6	**50,883**	46,402
Income tax expense	10	**(9,133)**	(8,181)
PROFIT FOR THE YEAR		**41,750**	38,221
Attributable to:			
Owners of the parent		**41,812**	38,223
Non-controlling interests		**(62)**	(2)
		41,750	38,221
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB0.14**	RMB0.13
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(3,569)**	3,816
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(3,569)**	3,816
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(3,569)**	3,816
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38,181**	42,037
Attributable to:			
Owners of the parent		**38,243**	42,039
Non-controlling interests		**(62)**	(2)
		38,181	42,037

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**61,265**	13,637
Investment properties	14	**23,350**	20,788
Prepaid land lease payments	15	**541**	644
Total non-current assets		**85,156**	35,069
CURRENT ASSETS			
Inventories	16	**26**	77
Gross amounts due from contract customers	17	**56,502**	34,466
Trade and bills receivables	18	**155,774**	84,430
Prepayments, deposits and other receivables	19	**30,544**	25,618
Pledged deposits	20	**5,869**	1,035
Cash and cash equivalents	20	**108,086**	124,971
Total current assets		**356,801**	270,597
CURRENT LIABILITIES			
Trade payables	21	**108,628**	58,751
Other payables and accruals	22	**45,794**	18,520
Interest-bearing bank borrowing	23	**40,000**	40,000
Tax payable		**7,258**	6,732
Total current liabilities		**201,680**	124,003
NET CURRENT ASSETS		**155,121**	146,594
TOTAL ASSETS LESS CURRENT LIABILITIES		**240,277**	181,663

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**5,003**	4,460
Interest-bearing bank borrowing	23	**19,890**	–
Total non-current liabilities		**24,893**	4,460
Net assets		**215,384**	177,203
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**2,397**	2,397
Reserves	26	**213,051**	174,808
		215,448	177,205
Non-controlling interests		**(64)**	(2)
Total equity		**215,384**	177,203

Xie Yang
Director

He Xuan Xi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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 2017	2,397	98,818	(13,830)	9,134	8,122	4,957	67,607	177,205	(2)	177,203
Profit for the year	–	–	–	–	–	–	41,812	41,812	(62)	41,750
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(3,569)	–	(3,569)	–	(3,569)
Total comprehensive income for the year	–	–	–	–	–	(3,569)	41,812	38,243	(62)	38,181
Transfer from retained profits	–	–	–	–	5,070	–	(5,070)	–	–	–
At 31 December 2017	2,397	98,818*	(13,830)*	9,134*	13,192*	1,388*	104,349*	215,448	(64)	215,384

Notes:

* These reserve accounts comprise the consolidated reserves of RMB213,051,000 (2016: RMB174,808,000) 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 (the "**Reorganisation**") which was completed on 10 July 2015. The Reorganisation only involved the addition of new holding entities on top of Great Water Guangzhou Environmental Protection Co., Ltd., 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 People's Republic of China (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 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**50,883**	46,402
Adjustments for:			
Finance costs	7	**2,862**	178
Bank interest income	5	**(244)**	(83)
Gain on disposal of items of property, plant and equipment	5	**–**	(1)
Depreciation	13	**1,840**	711
Fair value gains on investment properties	14	**(2,562)**	(5,361)
Recognition of prepaid land lease payments	15	**105**	25
		52,884	41,871
Decrease in inventories		**51**	53
Increase in gross amounts due from contract customers		**(22,036)**	(32,858)
Increase in trade and bills receivables		**(71,344)**	(11,595)
Increase in prepayments, deposits and other receivables		**(4,928)**	(11,467)
Increase in pledged deposits		**(4,834)**	(1,035)
Increase in trade payables		**49,877**	3,139
Increase in other payables and accruals		**27,274**	3,281
Cash generated/(used in) from operations		**26,944**	(8,611)
Interest received		**244**	83
Overseas taxes paid		**(8,066)**	(3,063)
Net cash flows from/(used in) operating activities		**19,122**	(11,591)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(49,513)**	(3,644)
Proceeds from disposal of items of property, plant and equipment		**2**	6
Net cash flows used in investing activities		**(49,511)**	(3,638)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows used in investing activities		**(49,511)**	(3,638)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**59,890**	40,000
Repayments of bank loans		**(40,000)**	(15,000)
Interest paid		**(2,862)**	(157)
Net cash flows from financing activities		**17,028**	24,843
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(13,361)**	9,614
Cash and cash equivalents at beginning of year		**124,971**	111,792
Effect of foreign exchange rate changes, net		**(3,524)**	3,565
CASH AND CASH EQUIVALENTS AT END OF YEAR		**108,086**	124,971
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**108,086**	124,971
Cash and cash equivalents as stated in the consolidated statement of financial position	*20*	**108,086**	124,971
Cash and cash equivalents as stated in the consolidated statement of cash flows		**108,086**	124,971

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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 GEM of The Stock Exchange of Hong Kong Limited (the "**Exchange**") on 9 December 2015 (the "**Listing**").

Information about subsidiaries

Particulars of the Company's all 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	HK$60,125,001	100	–	Investment holding
Lintao Environmental Protection Co., Ltd. ^# (廣州霖濤環保技術有限公司)	PRC/Mainland China	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)	PRC/Mainland China	RMB48,000,000	–	100	Design and construction and sale of equipment for wastewater projects
Guangzhou Great Water Environmental Protection Co., Ltd.^^# ("**Great Water Guangzhou**") (廣州中科建禹環保有限公司)	PRC/Mainland China	RMB33,333,300	–	100	Design and construction and sale of equipment for environmental protection projects

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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
Trung Khoa Kien Vu Environmental Protection (Vietnam) Company Limited ("**Great Water Vietnam**")	Vietnam	US$180,000	–	100	Design and construction for wastewater projects
Strong Wave Group Limited	British Virgin Islands	US$1	100	–	Investment holding
Sino Tactics Limited ("**Sino Tactics**")	British Virgin Islands	US$100	–	92	Investment holding
Manford Incorporation Limited ("**Manford**")	Hong Kong	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)	PRC/Mainland China	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 wholly-foreign-owned enterprises under the PRC law.

^^ Registered as domestic enterprises under the PRC law.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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 2017. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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 HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 30 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as no subsidiary, joint venture or associate of the Group are classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months The Group has determined that the changes in accounting policies will not have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impairment of the adoption of HKFRS 15.

The Group's principal activities consist of the design, construction, operation and maintenance service of related facilities and trading of related equipment. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

(a) Construction projects with sale of equipment

The Group provides construction projects with sale of equipment. Currently, revenue from the sale of equipment is recognised upon the estimated percentage of completion. Upon the adoption of HKFRS 15, revenue from the sale of equipment will be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The Group has assessed that the construction bundled together with the sale of equipment are distinct and are considered as separate performance obligations under HKFRS 15. The Group has further assessed that the constructions are satisfied over time given that the customers simultaneously receive and consume the benefits provided by the Group. Revenue allocated to the constructions will be recognised over the period that the services are provided. The Group has determined that when HKFRS 15 is adopted, revenue from the sale of equipment and the revenue from construction for 2017 will be increased by RMB522,000 and RMB1,166,000 respectively because of the allocation of a portion of contract consideration as revenue of the sale of equipment which will be recognised earlier as compared to current practice and the recognition of a portion of construction income over time.

(b) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 28(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB56,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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% to 5%
Building improvements	20%
Electronic equipment	19% to 33%
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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

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 profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 carryforward 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 carryforward 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts *(continued)*

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.

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 benefit

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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. Proposed final dividends are disclosed in the notes to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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 contracts 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 the 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 2017 was RMB23,350,000 (31 December 2016: RMB20,788,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Estimation uncertainty *(continued)*

Provision for income taxes

Provision for income taxes 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 taxes 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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) the Engineering, Procurement and Construction projects ("**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) the construction projects ("**Construction Projects**") segment represents construction projects other than EPC Projects;

(c) the equipment projects ("**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 other projects ("**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 of the Company monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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, interest-bearing bank borrowings 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	75,418	39,166	121,947	11,019	247,550
Segment results	12,647	8,678	40,535	8,832	70,692
Reconciliation:					
Interest income					244
Unallocated gains					12,438
Corporate and other unallocated expenses					(29,629)
Finance costs					(2,862)
Profit before tax					50,883
Segment assets	83,387	37,345	113,819	4,694	239,245
Reconciliation:					
Corporate and other unallocated assets					202,712
Total assets					441,957
Segment liabilities	47,184	10,193	55,886	26	113,289
Reconciliation:					
Corporate and other unallocated liabilities					113,284
Total liabilities					226,573
Other segment information:					
Depreciation and amortisation					1,945
Capital expenditure*					49,513

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016	EPC Projects *RMB'000*	Con-struction 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**243,010**	172,363
Vietnam	**4,540**	6,966
	247,550	179,329

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

(b) Non-current assets

	2017	2016
	RMB'000	*RMB'000*
Mainland China	**84,561**	34,284
Vietnam	**595**	785
	85,156	35,069

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:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**49,782**	37,795
Customer B	**36,118**	35,316
Customer C	**34,877**	29,217
Customer D	**27,255**	14,862

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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	2017 RMB'000	2016 RMB'000
Revenue			
Income from construction contracting and related business		**114,584**	59,684
Sale of goods		**121,947**	112,929
Rendering of maintenance services		**11,019**	6,716
		247,550	179,329
Other income			
Bank interest income		**244**	83
Rental income		**4,717**	1,642
Government grants*			
— Related to income		**6,489**	2,175
Exchange (losses)/gains, net		**(1,335)**	874
Others		**5**	113
		10,120	4,887
Gains			
Fair value gains on investment properties	14	**2,562**	5,361
Gain on disposal of items of property, plant and equipment		**–**	1
		2,562	5,362
		12,682	10,249

* Government grants for the year ended 31 December 2017 were received from the government authorities of the PRC as incentives to listed entities in Guangzhou. 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.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

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

	Note	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**81,412**	67,004
Cost of construction contracting		**93,259**	49,900
Cost of services provided		**2,187**	2,308
Depreciation	13	**1,840**	711
Amortisation of land lease payments	15	**105**	25
Auditor's remuneration		**1,247**	1,233
Employee benefit expense (excluding directors' and chief executive's remuneration as disclosed in note 8):			
Wages and salaries		**15,009**	9,559
Pension scheme contributions#		**1,360**	1,066
Other welfare expenses		**2,841**	2,477
		19,210	13,102
Foreign exchange differences, net		**1,335**	(874)
Changes in fair value of investment properties*	14	**(2,562)**	(5,361)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**415**	420
Bank interest income*	5	**(244)**	(83)
Gain on disposal of items of property, plant and equipment*		**–**	(1)

* 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 2017 and 2016, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans	**2,862**	178

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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:

	2017	2016
	RMB'000	*RMB'000*
Fees	**901**	891
Other emoluments:		
Salaries, allowances and benefits in kind	**1,666**	677
Pension scheme contributions	**51**	50
	1,717	727
	2,618	1,618

(a) Independent non-executive directors

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

	2017	2016
	RMB'000	*RMB'000*
Mr. Tse Chi Wai	**104**	103
Mr. Ha Cheng Yong	**104**	103
Ms. Bai Shuang	**104**	103
	312	309

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

NOTES TO FINANCIAL STATEMENTS

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

(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***
2017				
Executive directors:				
Mr. Xie Yang	**242**	**1,386**	**29**	**1,657**
Mr. He Xuan Xi	**139**	**280**	**22**	**441**
Non-executive directors:				
Ms. Gong Lan Lan	**104**	**–**	**–**	**104**
Mr. Song Xiao Xing	**104**	**–**	**–**	**104**
	589	**1,666**	**51**	**2,306**

	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

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 of office.

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is the chief executive as well (2016: 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 (2016: four) highest paid employees, who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,494**	2,173
Pension scheme contributions	**75**	118
	2,569	2,291

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	
	2017	2016
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 is provided at the rate of 16.5% (2016: 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 (2016: 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 taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Guangzhou Great Water Environmental Protection Co., Ltd., 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 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

10. INCOME TAX *(continued)*

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 taxable income.

	2017	2016
	RMB'000	*RMB'000*
Current — Elsewhere other than Hong Kong	**8,592**	6,652
Deferred *(note 24)*	**541**	1,529
Total tax charge for the year	**9,133**	8,181

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of 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:

2017

	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	(5,732)		–		(2.024)		58,981		(342)		50,883	
Tax at the statutory tax rate	–	–	–	–	(334)	16.5	14,745	25.0	(68)	20.0	14,343	28.2
Lower tax rate for specific province or enacted by local authority	–	–	–	–	–	–	(5,976)	(10.0)	–	–	(5,976)	(11.7)
Effect on opening deferred tax of increase in rates	–	–	–	–	–	–	(137)	(0.2)	–	–	(137)	(0.3)
Income not subject to tax	–	–	–	–	–	–	(2)	–	–	–	(2)	–
Expenses not deductible for tax	–	–	–	–	–	–	–	–	–	–	–	–
Tax rate differential	–	–	–	–	–	–	246	0.4	–	–	246	0.5
Tax losses not recognised	–	–	–	–	334	(16.5)	195	0.3	130	38	659	1.3
Tax charge at the Group's effective rate	–	–	–	–	–	–	9,071	15.4	62	18.1	9,133	17.9

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10. INCOME TAX *(continued)*

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

11. DIVIDENDS

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: 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 RMB41,812,000 (2016: RMB38,223,000), and the weighted average number of ordinary shares of 300,000,000 (2016: 300,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	**41,812**	38,223

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**300,000,000**	300,000,000

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 2017								
At 31 December 2016 and At 1 January 2017:								
Cost	8,099	1,091	728	2,173	867	3,283	1,475	17,716
Accumulated depreciation	(480)	(1,091)	(545)	(312)	(707)	(944)	–	(4,079)
Net carrying amount	7,619	–	183	1,861	160	2,339	1,475	13,637
At 1 January 2017, net of accumulated depreciation	7,619	–	183	1,861	160	2,339	1,475	13,637
Additions	39,815	–	22	9,393	129	–	154	49,513
Disposals	–	–	(2)	–	–	–	–	(2)
Depreciation provided during the year	(518)	–	(47)	(679)	(68)	(528)	–	(1,840)
Exchange realignment	–	–	–	–	(5)	(38)	–	(43)
At 31 December 2017, net of accumulated depreciation	46,916	–	156	10,575	216	1,773	1,629	61,265
At 31 December 2017:								
Cost	47,914	1,091	710	11,566	989	3,239	1,629	67,138
Accumulated depreciation	(998)	(1,091)	(554)	(991)	(773)	(1,466)	–	(5,873)
Net carrying amount	46,916	–	156	10,575	216	1,773	1,629	61,265

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31 December 2017

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 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 an 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	3,283	1,475	17,716
Accumulated depreciation	(480)	(1,091)	(545)	(312)	(707)	(944)	–	(4,079)
Net carrying amount	7,619	–	183	1,861	160	2,339	1,475	13,637

At 31 December 2017 and 2016, the Group's buildings were pledged to secure general banking facilities granted to the Group (note 23).

NOTES TO FINANCIAL STATEMENTS

31 December 2017

14. INVESTMENT PROPERTIES

	2017	2016
	RMB'000	*RMB'000*
Carrying amount at 1 January	**20,788**	20,425
Transfer to an owner-occupied property *(note 13)*	**–**	(4,475)
Transfer to prepaid land lease payments *(note 15)*	**–**	(523)
Net gain from a fair value adjustment	**2,562**	5,361
Carrying amount at 31 December	**23,350**	20,788

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 2017 based on valuations performed by Roma Appraisals Limited, an independent professionally qualified valuer, at RMB23,350,000.

Each year, the Group's property manager and the chief financial officer decide, 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 2017 and 2016, the Group's investment properties were pledged to secure general banking facilities granted to the Group (note 23).

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 2017 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	**–**	**–**	**23,350**	**23,350**

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14. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy *(continued)*

	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

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 (2016: nil).

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

As at 31 December 2017

	Valuation technique	Significant unobservable input	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB23,350,000

As at 31 December 2016

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

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.

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15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**660**	162
Transfer from an investment property *(note 14)*	**–**	523
Recognised during the year	**(105)**	(25)
Carrying amount at 31 December	**555**	660
Current portion included in prepayments, deposits and other receivables	**(14)**	(16)
Non-current portion	**541**	644

At 31 December 2017 and 2016, the Group's leasehold land was pledged to secure general banking facilities granted to the Group (note 23).

16. INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	**26**	77

17. GROSS AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2017 RMB'000	2016 RMB'000
Gross amounts due from contract customers	**56,502**	34,466
Contract costs incurred plus recognised profits less recognised losses to date	**177,925**	68,455
Less: Progress billings	**(121,423)**	(33,989)
	56,502	34,466

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18. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**155,774**	84,330
Bills receivable	**–**	100
	155,774	84,430

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

	2017	2016
	RMB'000	*RMB'000*
Within one month	**44,132**	25,345
One to three months	**670**	11,685
Three months to one year	**83,536**	24,802
One to two years	**7,657**	15,501
Two to three years	**1,843**	–
	137,838	77,333
Retention monies receivable	**17,936**	7,097
	155,774	84,430

NOTES TO FINANCIAL STATEMENTS

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18. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired, with tax invoice unissued	**72,764**	31,682
Neither past due nor impaired, with tax invoice issued	**83,010**	52,203
Less than one month past due	**–**	–
One to three months past due	**–**	–
Over three months past due	**–**	545
	155,774	84,430

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 2017, 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 RMB100,000. 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 2017, 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.

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19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Prepayments	**22,097**	22,426
Deposits and other receivables	**8,447**	3,192
	30,544	25,618

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

	2017	2016
	RMB'000	*RMB'000*
Cash and bank balances	**113,955**	126,006
Less: Pledged deposits	**(5,869)**	(1,035)
Cash and cash equivalents	**108,086**	124,971
Denominated in:		
RMB	**41,309**	50,711
HK$	**48,346**	58,769
US$	**23,853**	15,590
Vietnam Dong ("**VND**")	**447**	936
	113,955	126,006

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.

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21. TRADE PAYABLES

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

	2017 *RMB'000*	2016 *RMB'000*
Within one month	**12,649**	30,827
One to three months	**6,763**	4,718
Three months to one year	**61,521**	8,147
Over one year	**27,695**	15,059
	108,628	58,751

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

22. OTHER PAYABLES AND ACCRUALS

	2017 *RMB'000*	2016 *RMB'000*
Other payables	**41,133**	13,863
Advances from customers	**4,661**	4,657
	45,794	18,520

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

23. INTEREST-BEARING BANK BORROWING

	2017			2016		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan — secured	**4.79**	**2018**	**40,000**	4.79	2017	40,000
Non-Current						
Bank loan – secured	**5.88**	**2027**	**19,890**	–	–	–

NOTES TO FINANCIAL STATEMENTS

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

	2017 *RMB'000*	2016 *RMB'000*
Analysed into:		
Bank loan repayable within one year	**40,000**	40,000
Bank loan repayable beyond one year	**19,890**	–
	59,890	40,000

Notes:

(a) The Group's banking facilities amounting to RMB99,890,000 (2016: RMB88,890,000), of which RMB59,890,000 (2016: RMB40,000,000) 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 RMB23,350,000 (2016: RMB20,788,000) (note 14);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB46,916,000 (2016: RMB7,619,000) (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 RMB555,000 (2016: RMB660,000) (note 15).

(b) The bank loans are 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 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 and 1 January 2017	4,730
Deferred tax charged to profit or loss during the year *(note 10)*	640
Gross deferred tax liabilities at 31 December 2017	5,370

NOTES TO FINANCIAL STATEMENTS

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24. DEFERRED TAX *(continued)*

Deferred tax assets

	Losses available for offsetting against future taxable profits *RMB'000*	Provision for accruals *RMB'000*	Total *RMB'000*
Gross deferred tax assets at 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 and 1 January 2017	64	206	270
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	(62)	161	99
Exchange realignment	(2)	–	(2)
Gross deferred tax assets at 31 December 2017	–	367	367

The Group has tax losses arising in Hong Kong of RMB2,024,000 (2016: RMB781,000) (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.

The Group has tax losses arising in Vietnam of RMB342,000 (2016: Nil) (note 10) that are available for offsetting against future taxable profits of the companies in which the losses arose and will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items 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 2017, 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 RMB118,724,000 at 31 December 2017 (2016: RMB73,102,000).

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

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25. SHARE CAPITAL AND SHARE PREMIUM

	2017		2016	
		RMB'000		*RMB'000*
	HK$000	***equivalent***	*HK$000*	*equivalent*
Issued and fully paid:				
300,000,000 ordinary shares of HK$0.01 each	**3,000**	**2,397**	3,000	2,397

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 59 to 60 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 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**5,857**	1,807
In the second to fifth years, inclusive	**7,229**	7,229
After five years	**2,039**	3,847
	15,125	12,883

(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.

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28. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee *(continued)*

At 31 December 2017, the Group had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2017	2016
	RMB'000	*RMB'000*
Within one year	**56**	113
In the second to fifth years, inclusive	**–**	8
	56	121

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:

	2017	2016
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Purchases of items of equipment for projects	**102,399**	77,305
Capital contribution payable to a joint venture company	**46,000**	46,000
	148,399	123,305

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans
	RMB'000
At 1 January 2017	4,000
Changes from financing cash flows	19,890
Interest expense	(2,862)
At 31 December 2017	21,028

31. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2016: nil).

NOTES TO FINANCIAL STATEMENTS

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32. 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:

	2017	2016
	RMB'000	*RMB'000*
Mr. Xie Yang	**926**	100
Mr. He Xuan Xi	**47**	47
Ms. Gong Lan Lan	**104**	103
Mr. Song Xiao Xing	**104**	103
Mr. Tse Chi Wai	**104**	103
Mr. Ha Cheng Yong	**104**	103
Ms. Bai Shuang	**104**	103
	1,493	662

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

	2017	2016
	RMB'000	*RMB'000*
Short term employee benefits	**5,544**	2,720

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

NOTES TO FINANCIAL STATEMENTS

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33. 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:

	2017	2016
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables:		
Trade and bills receivables	**155,774**	84,430
Financial assets included in prepayments, deposits and other receivables	**8,447**	3,192
Pledged deposits	**5,869**	1,035
Cash and cash equivalents	**108,086**	124,971
	278,176	213,628
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**108,628**	58,751
Financial liabilities included in other payables and accruals	**41,133**	13,863
Interest-bearing bank borrowing	**59,890**	40,000
	209,651	112,614

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 December 2017, 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, interest-bearing bank borrowings 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans 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*
2017			
If the RMB weakens against the VND	**5**	**(5)**	**(5)**
If the RMB strengthens against the VND	**(5)**	**5**	**5**
If the RMB weakens against the US$	**5**	**1,381**	**1,174**
If the RMB strengthens against the US$	**(5)**	**(1,381)**	**(1,174)**
If the RMB weakens against the HK$	**5**	**2,495**	**2,121**
If the RMB strengthens against the HK$	**(5)**	**(2,495)**	**(2,121)**
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)

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS

31 December 2017

35. 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 68% (2016: 57%) 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 2017

	On demand *RMB'000*	**Less than 3 months** *RMB'000*	**3 to less than 12 months** *RMB'000*	**More than 12 months** *RMB'000*	**Total** *RMB'000*
Trade payables	**108,628**	**–**	**–**	**–**	**108,628**
Financial liabilities included in other payables and accruals	**41,133**	**–**	**–**	**–**	**41,133**
Interest-bearing bank borrowing	**–**	**771**	**40,968**	**30,398**	**72,137**
	149,761	**771**	**40,968**	**30,398**	**221,898**

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

NOTES TO FINANCIAL STATEMENTS

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35. 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 2017 and 31 December 2016.

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 borrowings, 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:

	2017 ***RMB'000***	2016 *RMB'000*
Interest-bearing bank borrowings	**59,890**	40,000
Trade payables	**108,628**	58,751
Financial liabilities included in other payables and accruals	**41,133**	13,863
Less: Cash and cash equivalents	**(108,086)**	(124,971)
Net debt	**101,565**	(12,357)
Total capital	**215,448**	177,205
Capital and net debt	**317,013**	164,848
Gearing ratio	**32%**	N/A

NOTES TO FINANCIAL STATEMENTS

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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:

	2017	2016
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Investment in a subsidiary	**49,975**	53,478
Total non-current assets	**49,975**	53,478
CURRENT ASSETS		
Prepayments, deposits and other receivables	**50,100**	59,897
Total current assets	**50,100**	59,897
CURRENT LIABILITIES		
Other payables and accruals	**560**	972
Total current liabilities	**560**	972
NET CURRENT ASSETS	**49,540**	58,925
TOTAL ASSETS LESS CURRENT LIABILITIES	**99,515**	112,403
NET ASSETS	**99,515**	112,403
EQUITY		
Share capital	**2,397**	2,397
Reserves *(note)*	**97,118**	110,006
TOTAL EQUITY	**99,515**	112,403

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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

Note:

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

	Share premium	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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
Loss for the year	–	–	(5,731)	(5,731)
Exchange differences on translation of foreign operations	–	(7,157)	–	(7,157)
At 31 December 2017	103,125	3,653	(9,660)	97,118

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2018.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*	2016 *RMB'000*	**2017** ***RMB'000***
RESULTS					
Revenue	62,816	122,222	166,985	179,329	**247,550**
Profit before tax	9,745	26,607	20,412	46,402	**50,883**
Income tax expense	(1,528)	(3,895)	(3,495)	(8,181)	**(9,133)**
Profit for the year	8,217	22,712	16,917	38,221	**41,750**
Attributable to:					
Owners of the parent	8,217	22,712	16,917	38,223	**41,812**
Non-controlling interests	–	–	–	(2)	**(62)**
	8,217	22,712	16,917	38,221	**41,750**

	As at 31 December				
	2013 *RMB'000*	2014 *RMB'000*	2015 *RMB'000*	2016 *RMB'000*	**2017** ***RMB'000***
ASSETS, LIABILITIES AND NON CONTROLLING INTERESTS					
Total assets	72,361	127,238	227,072	305,666	**441,957**
Total liabilities	(36,886)	(63,348)	(91,906)	(128,463)	**(226,573)**
Total equity	35,475	63,890	135,166	177,203	**215,384**
Equity attributable to owners of the parent	35,475	63,890	135,166	177,205	**215,448**
Non-controlling interests	–	–	–	(2)	**(64)**
Total equity	35,475	63,890	135,166	177,203	**215,384**