China Environmental Technology Holdings Limited

(Incorporated in the Cayman Island with limited liabitily
Stock Code: 646

ANNUAL REPORT 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Xu Zhong Ping *(Chairman)*
Mr. Xu Xiao Yang *(Chief Executive Officer)*
Ms. Hu Yueyue

NON-EXECUTIVE DIRECTORS:

Mr. Ma Tianfu

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Tse Chi Wai
Prof. Zhu Nan Wen
Prof. Li Jun

AUDIT COMMITTEE

Mr. Tse Chi Wai (Chairman)
Prof. Zhu Nan Wen
Prof. Li Jun

REMUNERATION COMMITTEE

Mr. Tse Chi Wai (Chairman)
Prof. Zhu Nan Wen
Prof. Li Jun

NOMINATION COMMITTEE

Mr. Xu Zhong Ping (Chairman)
Mr. Tse Chi Wai
Prof. Zhu Nan Wen
Prof. Li Jun

COMPANY SECRETARY

Mr. Li Wang Hing, Nelson

INDEPENDENT AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

LEGAL ADVISERS

Conyers Dill & Pearman

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008,
Willow House, Cricket Square
Grand Cayman KY1-1001,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

P.O. Box 10008,
Willow House, Cricket Square
Grand Cayman KY1-1001,
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1003–5
10th Floor, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2511 1870
Fax: (852) 2511 1878

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 646

PRINCIPAL BANKERS

China Citic Bank International Limited
Hang Seng Bank Limited

COMPANY WEBSITE

www.cethl.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board (the "**Board**") of Directors (the "**Directors**") of China Environmental Technology Holdings Limited ("**CETH**" or the "**Company**", together with its subsidiaries collectively referred to as the"**Group**"), I am pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2017.

2017 is a good start for the Group. The new medical service team will help the Group create a new highlight. The environmental protection business is also steadily developing in the right direction. I believe that with the team's efforts, our business will flourish. We will continue to optimize our market layout, enhance our core strengths and expand our overseas footprint. We shall give full effect to the new objectives and implement new measures, writing another chapter of CETH's reform and development!

Meanwhile, I would like to take this opportunity to express my appreciation for the great support to me in various tasks from the Company's shareholders and directors and the Group's business partners, management personnel and all staff in the previous year.

On behalf of the Board

Mr. Xu Zhong Ping

Chairman

Hong Kong, 29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31 December 2017, the Group recorded a revenue of approximately HK$79,166,000 (2016: approximately HK$34,689,000), representing an increase of about 128.22% compared to that of 2016. The Group's loss attributable to owners of the Company was approximately HK$ 60,666,000 (2016: approximately HK$ 55,239,000). Gross profit margin was approximately 48.27% as compared to 19.50% in last year.

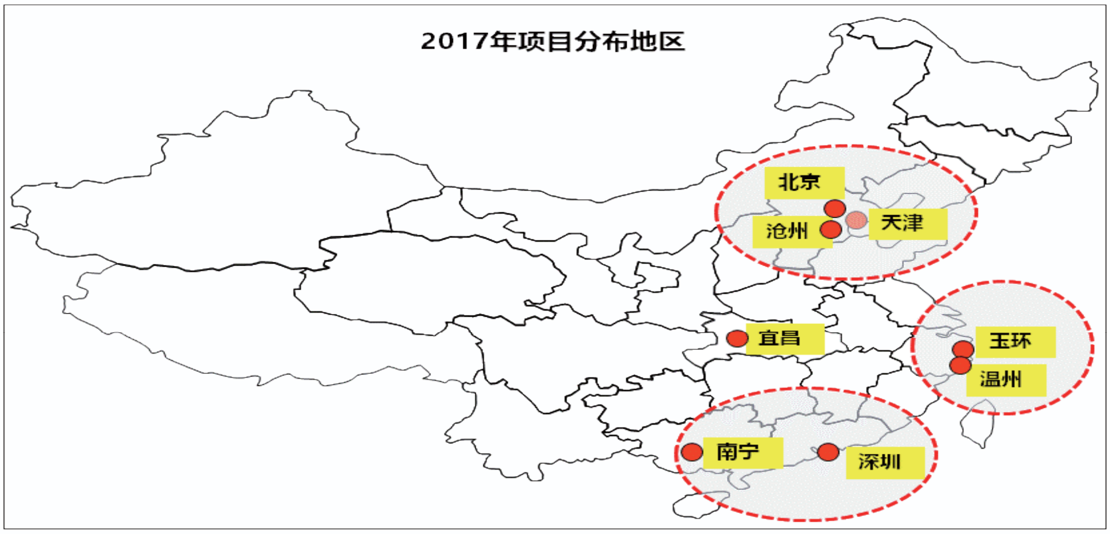
BUSINESS REVIEW

For Wastewater treatment

In 2017, the Company traditionally and principally engaged in the environmental protection business segment and made strategic adjustments that the environmental protection businesses related to wastewater treatment, such as technical services, project contracting, equipment sales and operation services, have all been centralized in the core subsidiary, Beijing Jingrui Kemai Water Purification Technology Company Limited ("**Beijing Jingrui Kemai**") for management.

As a core environmental protection platform after the transformation and integration of listed company, Beijing Jingrui Kemai had 10 core patented technologies. Leveraging on the outstanding performance and high-standard technical service of magnetic coagulation technology products, Beijing Jingrui Kemai continued to receive orders by stepping up the standard transformation and advanced treatment in the sewage treatment plant, treatment of black and odor water pollution in urban rivers and lakes, and the comprehensive treatment of source water environment in villages and towns. The well-known domestic water supply groups including Tianjin Capital Environmental, Shenzhen Water Group, Everbright Water, and Quzhou Water Supply and Drainage Group have all become clients of the Company.

In 2017, Beijing Jingrui Kemai obtained a total of 11 sewage treatment project orders in 8 cities across the country, with the total daily processing water amounting to 429,000 tons. Both order volume and sales increased by 27.9% and 22.5% respectively compared to 2016, and the average gross margin reached 38%.



MANAGEMENT DISCUSSION AND ANALYSIS

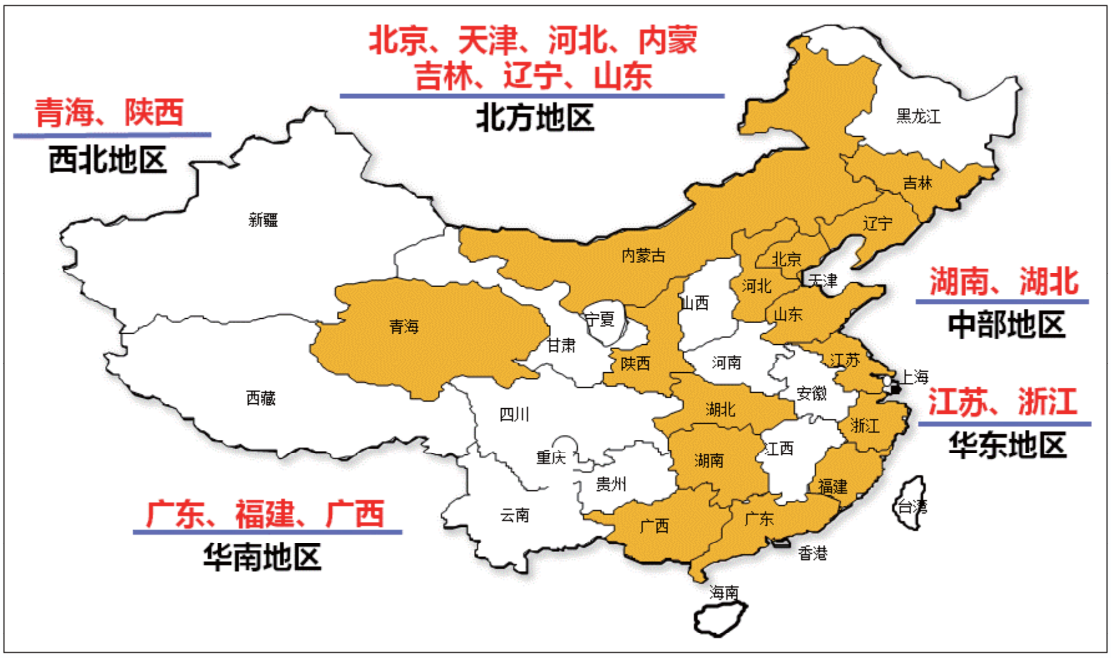
In 2017, the project of purification of 150,000 tons of water in Shenzhen Maozhou River was the largest first-level magnetic separation project for domestic monomer (with a total of two sets of 75,000 tons of monomer). The 200,000 tons of Tianjin Beitang Sewage Treatment Plant won the bid for the largest deep-processing magnetic separation project in China (with a total of two sets of 100,000 tons of monomer), both breaking the industry record.

Shenzhen Maozhou River 150,000 tons

Everbright Nanning Shuitanggjiang Project

MANAGEMENT DISCUSSION AND ANALYSIS

As of the end of December 2017, dozens of magnetic coagulation projects completed by Beijing Jingrui Kemai scattered in 16 provinces and municipalities across the country, with a total capacity of 1.5 million tons/day.



For Fertility medical

The acquisition of 50% equity interest in Pacific Fertility Institutes Holding Company Limited proved that the management had made the important and right decision.

Not only the guaranteed profit USD5,000,000 had been fulfilled, but also fertility medical segment contributed 64.34% of the total revenue in 2017. We can foresee that the segment will increase with a bright and fast speed.

OUTLOOK

For Wastewater treatment

Along with the inclusion of ecological civilization construction in the Constitution and the continued benefits brought by national policies in respect of environmental protection industry, room of market development for environmental protection industry will further expand. In 2018, the traditional magnetic coagulation business is expected to maintain a growth of more than double digits. Based on the original magnetic coagulation business, it will strongly promote the “Magnetic Coagulation+” business and enter the smart water market. We believe that the environmental protection business under the new structure will be more adaptable to the market and more dynamic, and will further consolidate the leading edge of technology, ensuring the steady growth of environmental protection business.

MANAGEMENT DISCUSSION AND ANALYSIS

For Fertility medical

Pacific Fertility Institutes (Singapore) Pte. Ltd. is an indirectly wholly-owned subsidiary of the Company. The Singapore Clinic is expected to commence the trial operation in April 2018. As the R&D centre of the Group, the Singapore Clinic will mainly be responsible for setting up a standardized processing system for clinical and embryological laboratory of reproductive medicine services carries out by the Group, training medical specialists and developing more effective reproductive treatments and pharmaceuticals. The Board believes that by setting up the Singapore Clinic, lay an important foundation for setting up of the standardized quality management system and professionals training in the field of reproductive medicine.

Pacific Fertility Institutes (PFI) is one of the largest chain assisted reproductive medical groups worldwide. In respond to the growing worldwide need for assisted reproductive medicine, PFI is committed to providing professional assisted reproductive medical services to people who are facing fertility issues. PFI already set up its professional reproductive clinics and international referral centers in Los Angeles, Saipan(U.S.), Singapore (under construction), Beijing, Shanghai and is expanding its network continuously. PFI's experienced core medical team is from Cambridge University, UCLA, Stanford University, and NUS, ensuring the highest standard of care delivered to our patients.

CAPITAL STRUCTURE

Issue of new shares under specific mandate

On 30 December 2016, the Company entered into the SP Agreement in relation to the Acquisition of 50% equity interest in the Pacific Fertility Institutes Holding Company Limited involving issue of consideration shares under specific mandate.

Completion of the subscription of consideration shares took place on 31 March 2017 pursuant to which 650,000,000 consideration shares were issued at consideration price of HK$0.27 per consideration share with reference to the quoted market closing price of HK$0.22 of the Company's shares on the date of completion. Accordingly, the Company's issued share capital was increased by approximately HK$16,250,000 and its share premium account was increased by approximately HK$126,750,000. Unless otherwise expressly indicated, capitalized terms used herein shall have the same meaning as those defined in the Acquisition and Completion Announcements

EMOLUMENT POLICY

As at 31 December 2017, the Group had 96 employees (2016: 95 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

LIQUIDITY

As at 31 December 2017, the total cash and bank balances including restricted and pledged bank deposits of the Group were approximately HK$83,379,000 (2016: approximately HK$96,118,000). The cash and bank balances consisted of about 13.02% in Hong Kong dollars, 17.35% in Renminbi, 67.90% in US dollars and 1.73% Singapore dollars.

As at 31 December 2017, the Group had total assets of approximately HK$413,531,000 (2016: approximately HK$169,383,000) and total liabilities of approximately HK$283,148,000 (2016: approximately HK$164,315,000). As at 31 December 2017, the current ratio was 0.85 (2016: 1.15), calculated on the basis of current assets of approximately HK$209,354,000 (2016: approximately HK$161,972,000) over current liabilities of approximately HK$247,368,000 (2016: approximately HK$140,908,000).

The Group's borrowings and finance lease payables amounted to approximately HK$88,321,000 (2016: approximately HK$85,499,000). The Group's borrowings and finance lease payables are denominated in Renminbi and Hong Kong dollars, bearing fixed interest rates. The Group's gearing ratio, being the ratio of the total debts to total assets, was 21.36% (2016: 50.48%).

CHARGE ON ASSETS

As at 31 December 2016, the restricted deposit of the Group amounting to approximately HK$755,000 will be paid to customer once the Company breach of contract.

DETAILS REGARDING THE QUALIFIED OPINION ISSUED IN THE ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. A. Background of the Receivable

On 19 December 2014, Fanhe (Beijing) Water Utilities Investment Management Co. Ltd (凡和(北京)水務投資管理有限公司) ("**Fanhe**"), a wholly-owned subsidiary of the Company in the PRC, entered into a share transfer agreement with Beijing Capital Co., Ltd. (北京首創股份有限公司) ("**Beijing Capital**"), a State-owned enterprise and a shareholder owning 6.7075% equity interest in the Company (the "**Share Transfer Agreement**"), pursuant to which Fanhe agreed to sell, and Beijing Capital agreed to acquire, 100% equity interests in Fanhe Hulu, a wholly-owned subsidiary of Fanhe, for a total consideration of RMB102 million (the "**Consideration**"), subject to the fulfilment of the relevant conditions precedent set out therein (the "**Acquisition**").

As of the date of the Announcement, Fanhe has received RMB82 million out of RMB102 million from Beijing Capital as part of the Consideration. Pursuant to the Share Transfer Agreement, the remaining RMB20 million of the Consideration was to be settled by Beijing Capital upon (i) completion of the reconstruction project of Fanhe Hulu (the "**Project**"); (ii) determination of the total amount incurred on the Project; and (iii) the Project successfully obtaining environmental approvals from the relevant governmental authority (the "**Conditions Precedent**"). The Acquisition was duly registered with the relevant governmental authority on 12 January 2015.

B. Progress of fulfilment of the Conditions Precedent and reason why the Receivable remains outstanding

Upon completion of the Acquisition, Beijing Capital commenced the Project in mid-2015 and completed the reconstruction in mid-2017 (the "**Reconstruction Period**"). Due to an expansion of the designated work scope of the Project during the Reconstruction Period, Beijing Capital and the contractor were not able to reach consensus on the total amount incurred on the Project. Therefore, on 18 May 2017, the Company received a letter from Fanhe Hulu, whereby Fanhe Hulu notified the Company that an independent auditor was to be engaged for the audit work on the Project and the Company agreed to such engagement (the "**Completion Audit**"). On 26 January 2018, the Company consulted with Fanhe Hulu with regard to the progress of the Completion Audit, and was told that (i) the total amount incurred on the Project was yet to be finally determined; (ii) the Completion Audit was pending for approval from the relevant governmental authority; and (iii) the relevant governmental authority was still in the process of evaluating and granting the environmental approval for the Project (the "**Completion Procedures**"). As of the date of this annual report, it remains uncertain as to the exact timing on completion of the Condition Precedent due to the ongoing Completion Audit and Completion Procedures.

As a result, the relevant Condition Precedent of the Acquisition has not been fulfilled and the Receivable has remained outstanding up until the date of this submission.

2. The Company's auditors, ZHONGHUI ANDA CPA Limited ("**ZHONGHUI**") and the Company had taken the following actions regarding the Receivable:

a. Audit evidence requested by ZHONGHUI to assess the recoverability of the Receivable and steps taken by the Board in obtaining the requested evidence

In preparation of the auditors' report, ZHONGHUI had reviewed the Share Transfer Agreement and discussed with the Company on the context of the Receivable. On 7 March 2018, ZHONGHUI requested for a written audit confirmation in relation to the Receivable from Beijing Capital as audit confirmation (the "**Audit Confirmation**") and requested from the Company other relevant supporting documents for substantiating whether the Conditions Precedent had been fulfilled (the "**Other Supporting Documents**"). On 8 March 2018, the Company further requested for a written confirmation in relation to the Project's completion progress from Beijing Capital to assess the estimated timing on recovering the Receivable (the "**Progress Confirmation**", together with the Audit Confirmation, the "**Confirmations**"). The Board had since then followed up with Beijing Capital on the Confirmations on several occasions.

b. The reason why the auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the recoverability of the Receivable

Despite their effort and follow-up, ZHONGHUI and the Company were not able to receive the written response from Beijing Capital in relation to the Confirmations up until the publication date of the Announcement and the date of this submission solely due to the ongoing Completion Audit and Completion Procedures of the Project. ZHONGHUI therefore could not address and assess whether the Conditions Precedent had been fulfilled and in turn the recoverability of the Receivable without the executed Confirmations and the Other Supporting Documents as audit verification.

MANAGEMENT DISCUSSION AND ANALYSIS

c. ***Actual or potential impact on the Company's financial statements***

Taking into account the relevant circumstances, the Board (including the independent non-executive Directors) is of the view that the Receivable does not have an actual or potential impact on the Company's financial statements as the Receivable, once recovered, will be used for paying the required taxes pursuant to the Acquisition and setting off other payables to Fanhe Hulu.

3. The management of the Company is of the view that there is no issue on the recoverability of the Receivable nor any going concern assumptions given that (i) the solid background, credibility, and financial strength of Beijing Capital as a State-owned enterprise; (ii) the so-far satisfactory performance of its obligations (other than the payment of the outstanding Consideration solely due to the lengthy, ongoing Completion Audit and Completion Procedures of the Project) as set out in the Share Transfer Agreement; and (iii) Beijing Capital's close tie to, and past support for, the Company as being one of its shareholders, owning, directly or indirectly, an aggregate of 6.7075% equity interests in the Company. The management of the Company would prepare to discuss with ZHONGHUI and arrange for provision of impairment if the Receivable could not eventually be settled due to unforeseen circumstances.

4. The Audit Committee has duly reviewed the audit modification and discussed with ZHONGHUI regarding the Qualified Opinion during the Audit Committee meeting held on 29 March 2018. The Audit Committee has agreed with the management's position concerning the recoverability of the Receivable and going concern assumptions as disclosed above. The Audit Committee is also of the view that the Receivable does not have an actual or potential impact on the Company's financial statements taken into account the intended use of such Receivable once recovered.

5. The Company has been following up, and will continue to monitor closely, on the progress of the Completion Audit and the Completion Procedures of the Project with Beijing Capital and, where appropriate, communicating with the respective governmental authorities for the update of the progress. The Company and ZHONGHUI expect that the audit modification would be removed in the Company's auditors' report next year if the Receivable was subsequently received.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Zhong Ping, aged 55, is the Chairman and an executive Director of the Company. Mr. Xu is a director of Gentle International Holdings Limited. Mr. Xu has over 20 years' experience in enterprise management, business investment and international economic strategic cooperation. He has been a standing director of the China Council for the Promotion of International Economy and Culture* (中國國際經濟文化促進會) since 1996. Mr. Xu studied statistics and graduated from Nanjing University of Finance & Economics (formerly known as Nanjing Liangshi Economics College*), the PRC in 1986. Mr. Xu joined the Group in 2009.

Mr. Xu was a director of each of the following private companies registered in Hong Kong, which was dissolved by striking off pursuant to Section 291 of the Companies Ordinance (Chapter 32, Laws of Hong Kong): CVIC Commercial Development Co., Limited (中創商業發展有限公司), Gorden Hong Kong Limited (高登香港有限公司), Jumbo Star Development Limited (百利星發展有限公司) and Rich Harbour Holdings Limited (譽港集團有限公司). According to Mr. Xu, each of the said companies was solvent at the time of it being struck off.

Mr. Xu Xiao Yang, aged 50, is an executive Director and the CEO of the Company. He has over 20 years of management experience in the businesses of foreign trading, logistics, finance, education and real property. Before Mr. Xu joined the Company and its subsidiaries in 2008, he worked as a general manager of investment department of Neo-China Land Group (Holdings) Limited (stock coed: 563). Mr. Xu graduated from Beijing Foreign Language Institute and was major in English. He is now studying a master degree at Peking University Guanghua School of Management.

Ms. Hu Yueyue, aged 38, is an executive Director of the Company. She has over 10 years experiences of investment and management in the healthcare sector. She has led many investment projects in the healthcare sector and relevant post-investment management. Ms. Hu started her career in sales and marketing with General Electric in Shenzhen. Before joining us, she served as a managing director of China Huarong International Holdings Limited in Hong Kong and was in charge of the private equity investment business department that primarily focus on healthcare sector. Prior to that, she served as a managing director in Golden Harmony Capital and was responsible for managing the company's investments. She also previously worked in New Horizon Capital in Beijing and was highly involved in investment, portfolio management and fundraising. Ms. Hu obtained a Bachelor degree from Tsinghua University, a Master degree from Yale University, and an MBA degree from Massachusetts Institute of Technology. Ms. Hu did not have any directorships held in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

NON-EXECUTIVE DIRECTOR

Mr. Ma Tianfu, aged 71, is a non-executive Director of the Company. Mr. Ma is a director of Gentle International Holdings Limited and Superform Investment Development Limited; he is also a director and senior engineer of Shanghai Shi Dong Kou Embankment Development Engineering Company Limited (上海石洞口圍堤開發工程有限公司). Mr. Ma graduated from Shanghai University of Electric Power (formerly known as Shanghai Electric Power School) in the PRC and completed a four-year study in thermal engineering automatic system in power plants and has years of experience in the field of electricity power engineering and construction projects. He was awarded a Science and Technology Progress Award of Shanghai in 1993 issued by the Science and Technology Progress Awards Jury of Shanghai Municipality. Mr. Ma was issued with a certificate as a researcher for life of the Enterprises Committee of the Chinese Academy of Management Science in 2002. Mr. Ma joined the Group in 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tse Chi Wai, aged 50, is an independent non-executive Director of the Company. He has over 20 years' experience in auditing, accounting and corporate finance. Mr. Tse has been an executive director, the cheif financial officer and company secretary of China Information Technology Development Limited, a company listed on the Growth Enterprise Market ("**GEM**") Board of The Stock Exchange of Hong Kong Limited (stock code: 8178) since 15 August 2011, an independent non-executive director of Sunac China Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1918) since 19 December 2012, an independent non-executive director of Great Water Holdings Limited, a company listed on the GEM Board of the Stock Exchange (Stock code: 8196) since 8 December 2015, an independent non-executive director of Huarong Investment Stock Corporation Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 2277) since 19 April 2016, an independent non-executive director of Greens Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 1318) from 15 March 2015 to 19 November 2015. He has also been an executive director of Jih Sun Financial Holding Company Limited, a company listed on the Emerging Stock Board of the Taiwan Stock Exchange Corporation (stock code: 5820) since December 2010.

Mr. Tse graduated from the University of Hong Kong in 1989 with a Bachelor of Social Science (Honour) degree. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants in Hong Kong.

During the period between March 2015 and November 2015, Mr. Tse was an independent non-executive director of Greens Holdings Ltd. ("**Greens Holdings**") (Stock Code: 1318), a company incorporated in the Cayman Islands and principally engaged in the manufacture and supply of heat transfer products and solutions, the shares of which are listed on the Main Board of the Stock Exchange. Greens Holdings announced that (i) on 2 September 2015, Greens Holdings filed a winding up petition with the Grand Court of the Cayman Islands (the "**Cayman Court**") as the Company was unable to repay its debts; (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 Cayman Court; (iv) the winding up petition hearing in Hong Kong which was originally scheduled on 2 December 2015, has been adjourned several times to 3 August 2016, of which the petitioner was granted leave to withdraw the winding up petition in Hong Kong; (v) the Cayman Court convened a case management conference on 7 April 2016 and ordered that the winding up petition with the Cayman Court 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Professor Zhu Nan Wen, aged 49, is an independent non-executive Director of the Company. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee respectively. Professor Zhu obtained his doctoral degree in Environmental Engineering, Tongji University, the PRC in 2000, a master degree in microbiology, Zhe Jiang University (formerly known as Zhejiang Agriculture University* (浙江農業大學)), the PRC in 1996, and a bachelor degree in crop, Faculty of Agronomy*, Zhe Jiang University, the PRC in 1991. Professor Zhu has been working at Shanghai Jiao Tong University, the PRC since 2000. He has been a professor of School of Environmental Science and Engineering, Shanghai Jiao Tong University, the PRC since August 2005. He was an associate professor and a lecturer in the same school during the period from August 2001 to August 2005 and from March 2000 to July 2001 respectively. Professor Zhu is also the head of the Institute of Solid Waste Treatment and Disposal* (固體廢棄物處理處置技術研究所) at Shanghai Jiao Tong University, the PRC and is appointed as an expert in assessment and planning in selected projects of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), the PRC and Shanghai Chengtou Corporation (上海市城市建設投資開發總公司), the PRC. Professor Zhu has participated in various investment projects in wastewater treatment, environmental microbiology and waste treatment related fields which were registered as invention patents in the PRC. Professor Zhu joined the Group in 2009.

Prof. Li Jun, aged 53, is an independent non-executive Director of the Company since 6 April 2016. He is a professor and PhD student tutor in Beijing University of Technology, Registered Environmental Protection Engineer, Visiting Professor of The University of Tokyo, director of Research Institute of Municipal Engineering and Supervisor of Sewage and Sludge Treatment and Recycling Technology Research Laboratory in Beijing University of Technology. Prof. Li graduated from the School of Municipal and Environment Engineering, Harbin Institute of Technology with a Bachelor Degree in Water Supply and Drainage, a Master Degree in Environmental Engineering and a Doctorate Degree in Environmental Engineering. From 1996 to 1999, he worked as a post-doctorate researcher in Chiba University of Japan, and a researcher in The University of Tokyo, Japan from 2006 to 2007. He is currently the director of China Water Industry Association CCES, Deputy Secretary General and Member of the Committee of Environmental Engineering of Chinese Society of Environmental Sciences, Member of the Drainage Committee of CCES, Member of the Water Supply Committee of CCES, expert of Water Pollution Control Committee of China Association of Environmental Protection Industry, associate editor for "Water Pollution Control Engineering" of Encyclopedia of Chinese Environment, editor for China Water & Wastewater, Water & Wastewater Asia and Asia Environmental Protection, evaluation expert of The State Science and Technology Awards, National Natural Science Foundation of China, National 863 Program and National Science & Technology Pillar Program of China, financial evaluation expert of Ministry of Finance, evaluation expert of Central Financial Special Fund and Beijing Municipal Science & Technology Commission, Beijing evaluation expert, vice-chairman for evaluating the professional titles for water affair in Beijing, senior expert for evaluating the professional titles for engineering and technology series in Beijing, technical expert for ecological residential project of China Environmental Certification Center of MEP, editor for Environmental Publishing Center of Chemical Industry Press in China and consulting expert for H2O China (中國水網). He was awarded as Beijing Nova in Science in 2000, young and middle-aged backbone teacher in Beijing in 2006 and was elected as the Leading Entrepreneurial High-Tech Talent in 2014 (321 Strategy). He was awarded one First-Class, two Second-Class and one Third-Class Ministry-level Progress Prize in Scientific and Collective Technology awarded one Second-Class Prize in Ministry-level Outstanding Book, one First-Class Progress Prize in Provincial Science and Technology for Environmental Protection, two First-Class Progress Prizes in Science and Technology for Beijing Hydraulic Engineering Society. He was the chief editor (translator) of 5 monographs, participated in drafting 2 National Standards, 5 monographs and teaching materials and obtained 12 patents. He published over 200 papers on international and domestic journals and conferences like Water Research, Water Science & Technology, Biochemical Engineering Journal, Process Biochemistry, Journal of Residuals Science & Technology, RSC advances, Desalination and Water Treatment, China Environmental Science, ACTA Scientiae Circumstantiae, CIESC Journal, China Water & Wastewater, Environmental Science, Modern Chemical Industry, Water & Wastewater Engineering, Journal of Harbin University of Civil Engineering and Architecture, Acta Energiae Solaris Sinica, Environmental Engineering, Journal of Harbin Institute of Technology, Techniques and Equipment for Environmental Pollution Control, over 70 of which were recorded by SCI and EI.

Prof. Li Jun has been engaged in the research for sewage treatment technology for many years. He is the member of the evaluation panel of the point source control project of the capital water resources sustainable development strategies in the 21st century, national water treatment major project, acceptance of national water treatment major project, supervisor of national water treatment major project, National 863 Program, national science and technology support project etc.. He successively completed over 40 national and provincial subjects research, in which includes over 30 national and provincial subjects and international cooperation programs, such as the "Technology and Mechanism Research of Reduction Reactor of Residual Sludge Base on Environmental Impact of the Separation and Multiple Redox Reaction" (50678008) "Biodegraded Characteristic and Mechanism Research of Estrogenic Hormone in the Process of Denitrification and Dephosphorization of sewage treatment" (51078008), "Production and Process Control of N2O in the Process of Biological Denitrification of Different Sewage" (50478040) under the National Natural Science Foundation Project; the sub-topic of the "Key Technology Research and Integrated Demonstration of Urban Recycle Water Quality Improvement in Beijing" (2008ZX07314-008), the sub-topic research of the "Technology Integration and Engineering Demonstration of Quality-based Utilization of Recycle Water and Water Environment Control in Beijing" (2008ZX07314-009), the sub-topic of the "Key Technology Research and Integrated Demonstration of Upgrading and Reconstruction of Urban Sewage Treatment Plant subject to High Emission Standard" (2008ZX07317-02) under the national water pollution control and management of science and technology major projects; the "Technology Research of Effective Advanced Treatment and Reuse of Sewage" (2003AA601010), the "Technology Research of SBR (Sequencing Batch Reactor) Denitrification and Dephosphorization of Urban Sewage" (2004AA601020) under the sub-topic of the National 863 Program; the "Technology Research of New Sewage Treatment Reactor" under the project of Ministry of Education; "Synchronization of Denitrification and Dephosphorization Technology base on the Submerged Biofilm Process" under the project of Ministry of Construction and the sub-topic of the National 973 Proram, the National Scientific Key Project of the Ninth Five-Year Plan, the National Scientific Key Project of the Eighth Five-Year Plan, the Scientific Key Project of the Eighth Five-Year Plan of Heilongjiang Province and Sino-Japenese cooperation projects.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

AWARDS RECEIVED

(1) "Key technology and application on urban sewage treatment process control" was granted the First-Class Prize for advancement in science and technology awarded by Ministry of Education in 2011;

(2) "Submerged biofilm method of denitrification and dephosphorization technology research" was granted the Second-Class Prize for advancement in science and technology awarded by Ministry of Construction in 1997;

(3) "Flexible microporous membrane aeration technology" was granted the Third-Class Prize for advancement in science and technology of Heilongjiang Province and the First Class Prize for advancement in environmental science and technology of Heilongjiang Province in 1996;

(4) "Simple and efficient composite biological treatment technology" was granted the Second-Class Prize for advancement in science and technology of Heilongjiang Province in 2002;

(5) Microorganisms and Water Treatment Engineering was granted the Second-Class Prize for excellent books on science and technology awarded by Oil and Chemical Industry Association in 2004 (ministry level);

(6) "Energy-efficient and geomagnetism conservation technology research and demonstration project on water pollution control" was granted the First-Class Prize for advancement in science and technology awarded by Beijing Hydraulic Engineering Society in 2013; and

(7) "Utilization of recycled water molecules and water environmental control technology integration and demonstration project in Beijing" was granted the First-Class Prize for advancement in science and technology awarded by Beijing Hydraulic Engineering Society in 2014.

Complete Sets of Technology and Equipment Developed (which have obtained 24 patents):

(1) Complete set of technology and equipment on emergent water pollution control with magnetic technology as its core;

(2) Complete set of technology and equipment on low-energy rural sewage treatment;

(3) Complete set of technology on landscape water treatment and water quality protection;

(4) Complete set of technology on the upgrading and reconstruction of urban sewage treatment plants;

(5) Complete set of technology and equipment on heavy metal contamination removal;

(6) Complete set of technology on landfill leachate treatment;

(7) Complete set of technology and equipment on exact aeration

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(8) Complete set of technology on sludge reduction;

(9) Complete set of technology and equipment on the advanced oxidation of refractory wastewater;

(10) Complete set of technology on autotrophic and heterotrophic denitrification coupling;

(11) Complete set of technology on wastewater treatment with immobilized embedding of microorganisms as its core;

(12) Wastewater pretreatment technology and equipment with multi-functional belt type filters as its core; and

(13) Complete set of technology and equipment on black and odorous water control.

COMPANY SECRETARY

Mr. Li Wang Hing, Nelson, is the Company Secretary of the Company. He is also the finance & administration manager and human resources manager of the Company. Mr. Li holds a master degree of business administration from the University of Leicester in U.K. and a master degree of professional accounting from the Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and is also a qualified Chartered Secretary designated as fellow member of both The Institute of Chartered Secretaries and Administrators, United Kingdom and The Hong Kong Institute of Chartered Secretaries. At present, he is the Honorary Auditor of Hong Kong Seamen's Union and the Council Member of Shipping Employees Union.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Group's annual report for the year ended 31 December 2017.

The manner in which the principles and code provisions in the Corporate Governance Code ("**CG Code**") contained in Appendix 14 of the Listing Rules are applied and implemented is explained as follows:

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code, Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Throughout the year ended 31 December 201 7, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, save for the following deviation from the code provisions:

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election. There is no service contract between the Company and Mr. Ma Tianfu, the non-executive Director, Mr. Tse Chi Wai, Prof. Zhu Nan Wen and Prof. Li Jun, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices periodically to ensure these continue to meet the requirements of the CG Code and align with the latest developments.

CORPORATE GOVERNANCE REPORT

THE BOARD

RESPONSIBILITIES

The management and control of the business of the Company are vested in its Board. It is the duty of the Board to establish policies, strategies and plans, and to provide leadership in the attainment of the objective of creating value to shareholders.

The positions of the Chairman and the Chief Executive Officer are held by separate persons. The Chairman is responsible for the management of the Board and the formulation of strategies and policies of the Company. The Chief Executive Officer is responsible for the management of the business and overall operations. The senior management was delegated the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their respective terms of reference.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

BOARD COMPOSITION

The Company has adopted the recommended best practice under the CG Code. The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board currently comprises seven Directors, including three executive Directors, one non-executive Directors and three independent non-executive Directors.

The Directors during the financial year and up to the date of this report were:

Executive Directors:

Mr. Xu Zhong Ping *(Chairman)*
Mr. Xu Xiao Yang *(Chief Executive Officer)*
Mr. Zhang Fang Hong (retired on 29 May 2017)
Ms. Hu Yueyue (appointed on 9 June 2017)

Non-Executive Directors:

Mr. Cao Guoxian (retired on 29 May 2017)
Mr. Ma Tianfu

Independent Non-Executive Directors:

Mr. Tse Chi Wai
Prof. Zhu Nan Wen
Prof. Li Jun

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the CG Code.

Members of the Board are unrelated to one another.

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. On this basis, the Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules. As at the date of this annual report, none of them had served the Company for more than nine years.

The executive Directors, with their intimate knowledge of the business, take on the primary responsibility for the leadership for the Company while the non-executive Director and independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgment to the Board. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

In accordance with article 108(A) of the Articles of Association of the Company, all Directors are subject to retirement by rotation at least once every three years. In accordance with article 111 and article 112 of the Articles of Association of the Company, any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself for re-election by shareholders at the next general meeting (in the case of filling a casual vacancy) or the next annual general meeting (in the case of an addition to the Board).

Code provision A.4.1 of the CG Code stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

There is no service contract between the Company and Mr. Ma Tianfu, the non-executive Directors, and Mr. Tse Chi Wai, Prof. Zhu Nan Wen and Prof. Li Jun, the independent non-executive Directors. They were not appointed for any specific length of service with the Company.

Although the non-executive Directors and independent non-executive Directors do not have a specific term of appointment, all Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

BOARD DIVERSITY POLICY

Purpose

The Board has established a Nomination Committee with authority, responsibility, and specific duties, including but not limited to, recommend to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company.

This Policy aims to set out the approach to achieve diversity on the Board. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, ethnicity, age, length of service) will be disclosed in the Corporate Governance Report annually.

Monitoring and Reporting

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

Review of this Policy

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Reporting Procedures

This Policy will be published on the Company's website for public information.

A summary of this Policy together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual Corporate Governance Report.

As at 31 December 2017, the Nomination Committee comprised four members, namely Mr. Xu Zhong Ping (Chairman), Mr. Tse Chi Wai, Prof. Zhu Nan Wen and Prof. Li Jun.

The principal duties of the Nomination Committee include:

(a) to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to develop and formulate relevant procedures for nomination and appointment of Directors;

(c) to identify individuals suitably qualified to become a Board member;

(d) to make recommendations to the Board on selection or appointment of individuals nominated for directorships and appointment or re-appointment of Directors and succession planning for Directors; and

(e) to assess the independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the annual general meeting of the Company to be held on 29 May 2018.

A circular containing detailed information of the Directors standing for re-election at the annual general meeting to be held on 29 May 2018 shall be sent to the shareholders on or about 26 April 2018.

INDUCTION AND CONTINUING DEVELOPMENT FOR DIRECTORS

Each newly appointed Director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company may engage external legal and other professional advisers for providing professional briefing and training programmes to the Directors where circumstances arise. Continuing briefings and professional development to Directors will be arranged whenever necessary.

CORPORATE GOVERNANCE REPORT

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as providing appropriate professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities to all Directors through emails and relevant websites.

During the year of 2017, materials covering the updates of the Listing Rules, especially concerning the corporate governance and internal control have been given for Directors' review and study.

REMUNERATION COMMITTEE

As at 31 December 2017, the Remuneration Committee comprised three members, namely Mr. Tse Chi Wai (Chairman), Prof. Zhu Nan Wen and Prof. Li Jun, all of them are independent non-executive Directors. The primary objectives of the Remuneration Committee include:

(a) to make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive Directors and the senior management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration;

(b) to make recommendations on the remuneration packages of the executive Directors and the senior management;

(c) to review and approve the remuneration packages of the executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

(d) to review and approve the compensation arrangements for the executive Directors and the senior management.

The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and the remuneration packages.

The remuneration of the Directors has been determined with reference to their respective qualification, experience, duties and responsibilities in the Company as well as the Group's results and performance for the financial year concerned. The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year under review.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in Respect of Consolidated Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and the assets of the Company and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Board has conducted and was satisfied with the result of a review of the effectiveness of the system of internal control of the Group.

AUDIT COMMITTEE

As at 31 December 2017, the Audit Committee comprised three members, namely Mr. Tse Chi Wai (Chairman), Prof. Zhu Nan Wen and Prof. Li Jun, all of them are independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include the following:

(a) to review the consolidated financial statements and reports and consider any significant or unusual items raised by staff responsible for the accounting and financial reporting function or external auditor before submission to the Board;

(b) to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor;

(c) to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and

(d) to monitor the corporate governance of the Group including compliance with statutory and Listing Rules requirement.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2016; and the interim results for the period ended 30 June 2017, the financial reporting and compliance procedures, risk management review and processes and the re-appointment of the external auditor.

There is no different view taken by the Audit Committee regarding the selection, appointment and resignation of the external auditor.

The Audit Committee held two meetings during the year ended 31 December 2017 and the attendance records are set out under "Directors' Attendance Records" on page 26.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 39 to 42.

During the year ended 31 December 2017, the remuneration paid to the Company's auditor, ZHONGHUI ANDA CPA Limited is set out below:

Category of services	Fee paid/payable
Audit service	HK$1,100,000
Non audit services	HK$180,000
Total	HK$1,280,000

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. During the year, the Company Secretary had taken the necessary professional training.

BOARD MEETINGS

Board Practices and Conduct of Meetings

Annual meeting schedules and notice and draft agenda of each meeting are normally made available to Directors and committee members in advance.

Board papers together with all appropriate information is sent to all Directors/committee members well before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, Financial Controller or Company Secretary attended some regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary/secretary of the committees is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

The Company's Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Independent non-executive Directors who, and whose associates, have no material interest in the transaction should be present at the Board meeting.

CORPORATE GOVERNANCE REPORT

Directors' Attendance Records

During the year ended 31 December 2017, two regular Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were eight Board meetings held during the year under review, two of which was regular meeting held for approving the final results for the year ended 31 December 2016 and interim results for the period ended 30 June 2017. The other Board meetings were held as and when the business and operational needs arose.

The attendance records of each Director at the meetings of shareholders, the Board, Audit Committee, Remuneration Committee and Nomination Committee during the year ended 31 December 2017 are set out below:

	Attendance/Number of Meetings				
Name of Directors	**General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:					
Mr. Xu Zhong Ping	1/3	8/8	–	–	–
Mr. Xu Xiao Yang	2/3	8/8	–	–	–
Mr. Zhang Fang Hong (retired on 29 May 2017)	0/3	2/2	–	–	–
Ms Hu Yueyue (appointed on 9 June 2017)	0/0	5/6	–	–	–
Non-Executive Directors:					
Mr. Cao Guoxian (retired on 29 May 2017)	0/3	0/2	–	–	–
Mr. Ma Tianfu	0/3	4/8	–	–	–
Independent Non-Executive Directors:					
Mr. Tse Chi Wai	1/3	8/8	2/2	1/1	
Prof. Zhu Nan Wen	0/3	8/8	2/2	1/1	
Prof. Li Jun	0/3	4/8	1/2	0/1	

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

The Company has also established written guidelines of no less exacting terms than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board takes responsibility for all major matters of the Company including the setting of objectives and overall strategies, the approval and monitoring of all policy matters, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon obtaining approval from the Board.

The Board delegates day-to-day management, administration and operation of the Company to the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are posted on the Company's website (www.cethl.com) and the website of the Stock Exchange of Hong Kong Limited (www.HKEX.com.hk) and are available to shareholders upon request.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in note 15 to the consolidated financial statements.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an important channel for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, normally attend the annual general meeting and other relevant shareholders' meetings to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. As a channel to promote effective communication, the Company maintains a website at www.cethl.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2511-1878 for any inquiries.

SHAREHOLDERS' RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholders' meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the website of the Company and Hong Kong Exchanges and Clearing Limited after the shareholders' meeting.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE/MOVE A RESOLUTION AT GENERAL MEETINGS

There are no provisions allowing shareholders of the Company to make proposals or move resolutions at a general meeting under the Company's constitution or the laws of the Cayman Islands. Shareholders who wish to make proposals or move a resolution may, however, convene an extraordinary general meeting by the following procedures below.

Procedures for Shareholders to Propose Convening Extraordinary General Meetings

Extraordinary General Meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Secretary for the purpose of requiring an Extraordinary General Meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Shareholders to Propose a Person for Election as a Director

Pursuant to Article 113 of the Articles of Association of the Company, a notice in writing of the intention to propose a person for election as a Director and a notice in writing by that person of his willingness to be elected shall be lodged at the Head Office or at the Registration Office of the Company.

These notices shall be lodged during a period commencing no earlier than the day after the despatch of the notice of the general meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days subject to and to such extent permitted by and in accordance with the laws and the Listing Rules.

The Company can also accept the said notice earlier than the day after the despatch of the notice of the meeting appointed for such election of Director(s).

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Group's principal business are trading of machinery and equipment, environmental protection technology, equipment system integration, cities and towns wastewater treatment and project technical service, development of medical information system and healthcare management consulting, provision of health consultancy services, development of medical technology, provision of medical services and hospital management. The details activities and other particulars of the subsidiaries are set out in note 44 to the consolidated financial statements.

The Company is a company incorporated in the Cayman Islands and has its principal place of business at Unit 1003–5, 10th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

An analysis of the Group's performance for the year by operating segment is set out in note 11 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales attributable to the major customers during the financial year is as follows:

	Percentage of the Group's total Sales
The largest customer	12.52
Five largest customers in aggregate	50.84
The larger supplier	26.01
Five largest suppliers in aggregate	51.35

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43.

The Directors do not recommend payment of any dividend for the year ended 31 December 2017 (2016: Nil).

TRANSFER TO RESERVES

Loss attributable to owners of the Company, before dividends, of approximately HK$60,666,000 (2016: approximately HK$55,239,000) have been transferred to reserves. Other movements in reserves of the Company are set out in note 33 to the consolidated financial statements.

REPORT OF THE DIRECTORS

At 31 December 2017, none of distribution reserves are available to owners of the Company.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Xu Zhong Ping *(Chairman)*
Mr. Xu Xiao Yang *(Chief Executive Officer)*
Mr. Zhang Fang Hong (retired on 29 May 2017)
Ms. Hu Yueyue (appointed on 9 June 2017)

NON-EXECUTIVE DIRECTORS

Mr. Cao Guoxian (retired on 29 May 2017)
Mr. Ma Tianfu

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tse Chi Wai
Prof. Zhu Nan Wen
Prof. Li Jun

Ms.Hu Yueyue will retire from the office as an executive Director at the forthcoming annual general meeting of the Company in accordance with Articles 111 of the Articles of Association of the Company.

Mr. Ma Tianfu will retire from the office as non-executive Director at the forthcoming annual general meeting of the Company in accordance with Article 108(A) of the Articles of Association of the Company. Mr. Tse Chi Wai will retire from the office as an independent non-executive Director at the forthcoming annual general meeting of the Company in accordance with the Article 108(A) of the Articles of Association of the Company. All retiring Directors, being eligible will offer themselves for re-election.

All Directors (including non-executive and independent non-executive Directors) of the Company are subject to the general provisions in respect of the retirement and rotation of Directors at the annual general meeting pursuant to the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

The Directors and chief executive who held office at 31 December 2017 had the following interests in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) at that date as recorded in the register of Directors' and chief executives' interests required to be kept under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules (the "**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

LONG POSITION

Name of Director	Capacity	No. of ordinary shares interested	% of the Company's issued share capital
Mr. Xu Zhong Ping	Interest held by a controlled corporation *(note)*	1,200,000,000	32.87%
	Beneficial owner	64,098,431	1.76%
		1,264,098,431	34.63%
Mr. Xu Xiao Yang	Beneficial owner	20,000,000	0.55%

Note:

These 1,200,000,000 shares were held under the name of Gentle International Holdings Limited ("**Gentle**"). Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhong Ping is the sole shareholder of Classy Jade Limited. Mr. Xu was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

Apart from the foregoing, as at 31 December 2017, none of the Directors, the chief executive or any of their spouses or children under eighteen years of age has interests in the shares, underlying shares and debentures of the Company, or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

SHARE OPTIONS

2002 SHARE OPTION SCHEME

The Company's 2002 Share Option Scheme was adopted on 28 March 2002 and was terminated by a resolution passed by shareholders on 10 September 2010.

2010 SHARE OPTION SCHEME

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), adopted a new share option scheme (the "**2010 Share Option Scheme**"), as approved by the shareholders of the Company at the extraordinary general meeting held on 10 September 2010. The Directors are given a general mandate to invite eligible participants to take up options at the subscription price as prescribed under the 2010 Share Option Scheme to subscribe for shares of the Company. The purpose of the share option scheme is to enable the Group to grant options to the eligible participants including employees, executive and non-executive Directors, suppliers and customers and shareholders of any members of the Group and any persons or entities that provided research, development or other technical support to the Group or any other group or classes of participants determined by the Directors as incentive or rewards for their contribution to the Group. The share option scheme has become valid and effective for a period of ten years ending on 9 September 2020.

The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The options vest in four equal instalments with the first installment vesting from the date of grant. The second, third and fourth instalments vest from one, two and three years after the date of grant respectively. The options are exercisable after the vesting date but within a period of five years from the date of grant. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Company's ordinary shares in issue.

Offer of an option shall have been accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee together with a remittance of HK$1 is received within such time as may be specified in the offer, which shall not be later than 21 days from the date of offer. The share option scheme will expire on 9 September 2020.

As at 1 January 2017, there were no outstanding share options, and no share options were granted by the Company under the 2010 Shares Option Scheme up to 31 December 2017.

At no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

EQUITY LINKED AGREEMENTS

Save as disclosed above in the section headed "Share Options", no equity-linked an agreements were entered into by the Group, or existed during the year ended 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2017, the following persons, other than a Director or chief executive of the Company, had interest or short positions in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

	Capacity	No. of ordinary shares of the Company interested	% of the Company's issued shares capital
Gentle International Holdings Limited ("**Gentle**")	Beneficial owner	1,200,000,000	32.87
Classy Jade Limited	Interest of a controlled corporation *(Note 1)*	1,200,000,000	32.87
Mr. Xu Zhong Ping	Interest of a controlled corporation *(Note 1)*	1,200,000,000	32.87
Pacific Fertility Institutes Holding Company Limited ("**PFI**")	Beneficial owner *(Note 2)*	650,000,000	17.81
Options Inc	Interest of a controlled corporation *(Note 2)*	650,000,000	17.81
Leon Li	Interest of a controlled corporation *(Note 2)*	650,000,000	17.81

Note:

(1) Classy Jade Limited owns 60% of the issued share capital of Gentle. Mr. Xu Zhong Ping is the sole shareholder of Classy Jade Limited and was therefore deemed to be interested in the said 1,200,000,000 shares held by Gentle under Part XV of the SFO.

(2) Options Inc. owns 100% of the issued share capital of PFI. Mr. Leon Li is the sole shareholder of Options Inc. and was therefore deemed to be interested in the said 650,000,000 shares held by PFI under Part XV of the SFO.

Save as disclosed above, as at 31 December 2017, so far as is known to the Directors, no person (other than the Directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS INTERESTS IN COMPETING BUSINESS

None of the Directors or their respective associates has any interests in a business which competes or may compete with the business of the Group.

SHARES ISSUED DURING THE YEAR

Details of the movements in share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

DEBENTURES DURING THE YEAR

Reference is made to the announcement of the Company dated 21 September 2015. Terms used hereinafter shall have the same meaning as defined in the above announcement.

EMOLUMENT POLICY

As at 31 December 2017, the Group had 96 employees (2016: 95employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group operates a share option scheme for the purpose of providing incentives and rewards to (among others) eligible Directors and employees of the Group to recognise their contribution to the result of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the years ended 31 December 2017 and 2016.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in note 28 to the consolidated financial statements.

CONTINGENT LIABILITIES

As at 31 December 2017, the Company has no any contingent liabilities.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 112 of the annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term substainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and wates reduction.

RETIREMENT SCHEMES

As from 1 December 2000, the Group operates a mandatory provident fund scheme (the "**MPF Scheme**"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance (Cap. 485, Laws of Hong Kong) for employees employed under the jurisdiction of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

The MPF Scheme is a defined contribution retirement scheme. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HK$30,000.

The employees in the Group's PRC subsidiaries are members of the state-managed retirement schemes. The PRC subsidiaries are required to contribute a specified percentage of their payroll to these schemes. The only obligation of the Group with respect to these retirement schemes is to make the specified contributions.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is currently in force and was in force for the benefit of the Directors throughout the year.

The Company has taken out and maintained Directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its Directors and officers.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcements of the Company dated 14 January 2018 and 1 February 2018. Terms used hereinafter have the same meaning as defined in the above announcement.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

OVERVIEW

The business review of the Group as at 31 December 2017 is set out under the section headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report on pages 3 to 10.

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 followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

MARKET RISK

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

LIQUIDITY RISK

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

CONFIRMATION OF INDEPENDENCE

The Company received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

REPORT OF THE DIRECTORS

AUDITOR

Following the resignation of CCIF CPA Limited on 3 February 2012, PricewaterhouseCoopers ("**PWC**") was appointed as the auditor of the Company to fill the casual vacancy.

PWC resigned as auditors of the Company with effect from 19 July 2013 and Crowe Horwath (HK) CPA Limited ("**Crowe Horwath**") was appointed as auditors of the Company on 7 August 2013 to fill the vacancy following the resignation of PWC.

Crowe Horwath resigned as auditors of the Company with effect from 15 August 2014 and RSM Hong Kong (formerly known as RSM Nelson Wheeler)("**RSM**") was appointed as auditors of the Company on 27 August 2014 to fill the vacancy following the resignation of Crowe Horwath.

RSM resigned as auditors of the Company with effect from 6 December 2016 and ZHONGHUI ANDA CPA Limited ("**ZHONGHUI**") was appointed as auditors of the Company on 6 January 2017 to fill the vacancy following the resignation of RSM.

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by ZHONGHUI who will retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of ZHONGHUI as auditor of the Company is to be proposed at the forthcoming general meeting.

Save as disclosed above, there were no other changes in the Company's auditors in any of the preceding six years.

By order of the Board
Mr. Xu Zhong Ping
Chairman

Hong Kong, 29 March 2018

INDEPENDENT AUDITOR'S REPORT

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF CHINA ENVIRONMENTAL TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Island with limited liability)

QUALIFIED OPINION

We have audited the consolidated financial statements of China Environmental Technology Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 43 to 111, 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, consolidated statement of changes in equity and 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, 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 (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

RECOVERABILITY OF OTHER RECEIVABLES

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the other receivables of approximately HK$24,022,000 as at 31 December 2017. There are no other satisfactory audit procedures that we could adopt to determine whether any allowance for non-recovery of the amount should be made in the consolidated financial statements.

Any adjustment to this figure mentioned above might have a consequential effect on the Group's financial performance for the year and the consolidated financial position as at 31 December 2017.

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 qualified opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of approximately HK$60,666,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities of approximately HK$38,014,000. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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. In addition to the matter described in the Basis for Qualified Opinion section and the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INTANGIBLE ASSETS AND GOODWILL

Refer to Note 19 and Note 21 to the consolidated financial statements.

The Group tested the amount of intangible assets and goodwill for impairment. This impairment test is significant to our audit because the balance of intangible assets and goodwill of approximately HK$79,645,000 and HK$100,604,000 at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the identification of the related cash generating units;

— Assessing the competences, independence and integrity of the external valuer engaged by client;

— Assessing the arithmetical accuracy of the value-in-use calculations;

— Comparing the actual cash flows with the cash flow projections;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and

— Checking input data to supporting evidence.

We consider that the Group's impairment test for intangible assets and goodwill is supported by the available evidence.

TRADE AND OTHER RECEIVABLES

Refer to Note 24 to the consolidated financial statements

The Group tested the amount of trade and other receivables for impairment. This impairment test is significant to our audit because the balance of trade and other receivables of approximately HK$115,061,000 as at 31 December 2017 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

— Assessing the Group's procedures on granting credit limits and credit periods to customers and debtors;

— Assessing the Group's relationship and transaction history with the customers and debtors;

— Evaluating the Group's impairment assessment;

— Assessing ageing of the debts;

— Assessing credit worthiness of the customers and debtors; and

— Checking subsequent settlements from the customers and debtors.

We consider that the Group's impairment test for trade and other receivables is supported by the available evidence.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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. We report our opinion 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Pang Hon Chung
Audit Engagement Director
Practising Certificate Number P05988

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	8	**79,166**	34,689
Cost of sales		**(40,954)**	(27,923)
Gross profit		**38,212**	6,766
Other income	9	**381**	377
Other losses, net	10	**(19,526)**	(11,854)
Distribution costs		**(799)**	(855)
Administrative expenses		**(63,784)**	(47,438)
Loss from operations		**(45,516)**	(53,004)
Finance costs	12	**(9,081)**	(9,537)
Loss before tax	14	**(54,597)**	(62,541)
Income tax (expenses)/credit	13	**(4,464)**	2,454
Loss for the year		**(59,061)**	(60,087)
Other comprehensive (expenses)/income for the year, net of tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(6,752)**	7,460
Exchange differences reclassified to profit or loss on disposal of a subsidiary		**6**	—
		(6,746)	7,460
Total comprehensive expenses for the year		**(65,807)**	(52,627)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(60,666)**	(55,239)
Non-controlling interests		**1,605**	(4,848)
		(59,061)	(60,087)
Total comprehensive (expenses)/income for the year attributable to:			
Owners of the Company		**(69,417)**	(47,467)
Non-controlling interests		**3,610**	(5,160)
		(65,807)	(52,627)
Loss per share	17		
– Basic (HK cent per share)		**(1.74)**	(2.19)
– Diluted (HK cent per share)		**(1.74)**	(2.19)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	18	**11,776**	3,484
Intangible assets	19	**79,645**	3,927
Deposits paid for property, plant and equipment	20	**12,152**	—
Goodwill	21	**100,604**	—
Interests in associates	22	**—**	—
		204,177	7,411
Current assets			
Inventories	23	**10,914**	7,878
Trade and other receivables	24	**115,061**	57,883
Financial assets at fair value through profit or loss	25	**—**	93
Restricted and pledged bank deposits	26	**—**	755
Bank and cash balances	26	**83,379**	95,363
		209,354	161,972
Current liabilities			
Trade and other payables	27	**161,053**	66,006
Current tax liabilities		**20,744**	11,932
Borrowings	28	**65,571**	61,013
Deferred revenue	29	**—**	221
Finance lease payables	30	**—**	1,736
		247,368	140,908
Net current (liabilities)/assets		**(38,014)**	21,064
Total assets less current liabilities		**166,163**	28,475
Non-current liabilities			
Borrowings	28	**22,750**	22,750
Deferred tax liabilities	31	**13,030**	657
		35,780	23,407
NET ASSETS		**130,383**	5,068
Capital and reserves			
Share capital	32	**91,259**	75,009
Reserves	34	**(5,807)**	(62,971)
Equity attributable to owners of the Company		**85,452**	12,038
Non-controlling interests		**44,931**	(6,970)
TOTAL EQUITY		**130,383**	5,068

The consolidated financial statements on pages 43 to 111 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

Mr. Xu Zhong Ping
Director

Mr. Xu Xiao Yang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to owners of the Company									
	Notes	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Foreign currency translation reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	(Capital deficiency)/ Total equity HK$'000
At 1 January 2016		62,508	162,813	(180)	3,523	4,349	7,442	(274,299)	(33,844)	(1,810)	(35,654)
Total comprehensive expenses for the year		—	—	—	7,772	—	—	(55,239)	(47,467)	(5,160)	(52,627)
Disposal of leasehold land and buildings		—	—	—	—	(4,349)	—	4,349	—	—	—
Issue of shares on subscription	32(a)	1,390	8,554	—	—	—	—	—	9,944	—	9,944
Issue of shares on placing	32(b)	11,111	72,294	—	—	—	—	—	83,405	—	83,405
At 31 December 2016 and 1 January 2017		75,009	243,661	(180)	11,295	—	7,442	(325,189)	12,038	(6,970)	5,068
Total comprehensive (expenses)/income for the year		—	—	—	(8,751)	—	—	(60,666)	(69,417)	3,610	(65,807)
Issue of consideration shares	32(c)	16,250	126,750	—	—	—	—	—	143,000	—	143,000
Equity transaction with non-controlling shareholders of a subsidiary		—	—	—	—	—	—	(169)	(169)	169	—
Non-controlling interests arising from acquisition of subsidiaries		—	—	—	—	—	—	—	—	63,764	63,764
Dividends paid to non-controlling interests by a subsidiary		—	—	—	—	—	—	—	—	(15,642)	(15,642)
At 31 December 2017		91,259	370,411	(180)	2,544	—	7,442	(386,024)	85,452	44,931	130,383

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(54,597)**	(62,541)
Adjustments for:		
Depreciation	**1,613**	2,860
Amortisation of intangible assets	**12,607**	1,685
Gain on disposal of a subsidiary	**(30)**	—
Impairment loss on trade receivables	**12,567**	3,304
Impairment loss on amount due from an associate	**225**	—
Decrease in fair value of derivative financial asset	**3,141**	—
Write-down of obsolete inventories	**544**	7,750
Finance lease charges	**29**	262
Interest expenses	**9,052**	9,275
Interest income	**(221)**	(263)
Net loss on disposal of property, plant and equipment	**—**	2,992
Gain on sale and leaseback of property, plant and equipment	**(228)**	(556)
Write-off of property, plant and equipment	**—**	6,979
Write-off of trade receivables	**3,823**	—
Loss on financial assets at fair value through profit or loss	**28**	6
Operating cash flows before working capital changes	**(11,447)**	(28,247)
Change in inventories	**(3,608)**	(1,835)
Change in trade and other receivables	**(31,746)**	10,170
Change in trade and other payables	**22,354**	(10,781)
Cash used in operations	**(24,447)**	(30,693)
Income tax paid	**—**	(1,074)
Finance lease charges paid	**(29)**	(262)
Net cash used in operating activities	**(24,476)**	(32,029)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVTIES		
Payment for purchase of property, plant and equipment	**(4,443)**	(91)
Proceeds from disposal of property, plant and equipment	**91**	12,162
Proceeds from disposal of financial assets at fair value through profit or loss	**65**	—
Deposit paid for purchase of property, plant and equipment	**(12,152)**	—
Net cash outflow for disposal of a subsidiary	**(7)**	—
Net cash outflow for acquisition of subsidiaries	**(4,555)**	—
Interest income received	**221**	263
Decrease in restricted and pledged bank deposits	**755**	3,529
Net cash (used in)/generated from investing activities	**(20,025)**	15,863
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issue of subscription shares	**—**	9,944
Net proceeds from issue of placement shares	**—**	83,405
Proceeds from new bank loans	**5,304**	—
Proceeds from issue of convertible bonds	**54,530**	—
Proceeds from issue of bonds	**—**	5,300
Repayment of bank loans	**(5,345)**	(5,193)
Repayment of finance lease payables	**(1,792)**	(3,609)
Dividends paid to non-controlling interests by a subsidiary	**(15,642)**	—
Interest paid	**(2,945)**	(9,275)
Net cash generated from financing activities	**34,110**	80,572
Net (decrease)/increase in cash and cash equivalents	**(10,391)**	64,406
Effect of change in foreign exchange rate	**(1,593)**	5,801
Cash and cash equivalents at beginning of year	**95,363**	25,156
Cash and cash equivalents at end of year	**83,379**	95,363
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**83,379**	95,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

China Environmental Technology Holdings Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands on 31 August 2001 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office and principal place of business of the Company are located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and Unit 1003-5, 10th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong respectively.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are described in note 44 to the consolidated financial statements.

At 31 December 2017, the Directors consider the immediate parent of the Company to be Gentle International Holdings Limited, which is incorporated in the British Virgin Islands; and the ultimate parent of the Company to be Classy Jade Limited, which is incorporated in the Republic of Seychelles and controlled by Mr. Xu Zhong Ping, the chairman of the Company. The immediate and ultimate parent company do not produce consolidated financial statements available for public use.

2. BASIS OF PREPARATION

The Group incurred loss attributable to owners of the Company of approximately HK$60,666,000 for the year ended 31 December 2017 and the Group had net current liabilities of approximately HK$38,014,000 as at 31 December 2017. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors of the Company have been undertaking a number of plans and measures to improve the Group's liquidity and financial position, including:

(i) the Directors of the Company have reviewed the Group's cash flow projection prepared by management, which covered a period of not less than twelve months from 31 December 2017. In the opinion of the Directors, the Group will have sufficient working capital to meet its financial liabilities as and when they fall due and carry on its business without a significant curtailment of operations of not less than twelve months from 31 December 2017. Accordingly, the consolidated financial statements have been prepared on a going concern basis;

(ii) the non-controlling shareholder of Pacific Fertility Institutes Holding Company Limited, a subsidiary of the Company, confirms to provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least twelve months from 31 December 2017;

(iii) the Group's entrusted loan of approximately HK$60,046,000 as at 31 December 2017 were borrowed from an independent third party through commissioning a bank that are subjected to the annual renewal. The Directors are taking active actions to negotiate with the lender, and are confident that the Group will be able to successfully renew or extend repayment of entrusted loan;

2. BASIS OF PREPARATION (Continued)

(iv) The revenue and gross profit were improved steadily during the year. It is expected that the cash flow generated from the operation of fertility medical treatment services will further improve during the year 2018; and

(v) The Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Group and the above measures, the Directors of the Company consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, except for financial instruments that are measured at fair value as mentioned in the accounting policies below.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors of the Company (the "**Directors**") to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are further disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive expenses for the year between the non-controlling shareholders and owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONSOLIDATION (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

BUSINESS COMBINATION AND GOODWILL

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSOCIATES

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCY TRANSLATION

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

Buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Revaluation increases of buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or valuation less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	Over the lease term
Leasehold land and buildings	Shorter of the remaining lease term of 50 years or useful life
Machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	3 - 5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASES

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(iii) Sales and leaseback

For sale and leaseback transaction that results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. No adjustment on sales proceeds is necessary unless there has been an impairment in value, in which case the carrying amount of the asset is reduced to recoverable amount.

INTANGIBLE ASSETS

a) Patent

Purchased patent which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. The cost of patent acquired in a business combination is its fair value as at the date of acquisition. Amortisation is calculated on a straight-line basis over the remaining useful life of approximately 8 years from the date of acquisition to 16 October 2018.

b) Club membership

Club membership which has a finite useful life is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line over its useful life of 23 years.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (Continued)

c) *Contractual customer relationships*

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straightline method over the expected life of the customer relationship of 3 years.

d) *Distribution channel*

Distribution channel relationships acquired in a business combination are recognised at fair value at the acquisition date. The distribution channel has a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straightline method over the expected life of the distribution channel of 6 years.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

Investments are recognised and derecognised on a trade date basis where the purchase or sale of a financial assets is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transactions costs except in the case of financial assets at fair value through profit or loss.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

BORROWING

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

TRADE AND OTHER PAYABLES

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

EQUITY INSTRUMENTS

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

a) *Sale of goods*

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

b) *Wastewater treatment revenue*

Revenue arising from the operation of wastewater treatment plants or facilities is recognised based on actual wastewater treated from meter reading or the amount billed in accordance with the terms of contractual agreements where applicable during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

c) Fertility medical treatment services

The Group provision fertility medical treatment services and fertility related medical services and recognizes revenues when such services are provided to customers.

d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

EMPLOYEE BENEFITS

a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BORROWING COSTS (Continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

TAXATION

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAXATION (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

RELATED PARTIES

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if 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 Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities 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;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

RELATED PARTIES (Continued)

(B) An entity is related to the Group if any of the following conditions applies: (Continued)

(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. If the Group is itself such a plan, the sponsoring employers are also 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); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF ASSETS (Continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the bank and non-controlling shareholder to finance the working capital requirements of the Group and successful on the cost control. Details are explained in note 2 to the consolidated financial statements.

b) Classification of Pacific Fertility Institutes Holding Company Limited ("**Pacific Fertility Institutes**") and its subsidiaries (collectively known as the "**Pacific Fertility Institutes Group**") as subsidiary

On 31 March 2017, the Group acquired 50% equity interest of Pacific Fertility Institutes by allotment and issue of 650,000,000 ordinary shares of the Company (details are disclosed in Notes 36 to the consolidated financial statements). Since the Group has control over Pacific Fertility Institutes as it can appoint two out of three directors on the board of directors of Pacific Fertility Institutes, Pacific Fertility Institutes Group are classified as subsidiaries of the Group.

KEY SOURCES OF 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 discussed below.

a) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use or fair value less cost of disposal of the cash-generating units ("**CGUs**") to which goodwill and the intangible assets have been allocated. The value in use or fair value less cost of disposal calculation require the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and the intangible assets using suitable discount rates. Details of the recoverable amount calculation and impairment loss made for the year are disclosed in note 19 and note 21.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

b) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, price risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

A) FOREIGN EXCHANGE RISK

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

B) PRICE RISK

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk.

At 31 December 2017, if the share prices of the financial assets at fair value through profit or loss increase/decrease by 20%, loss after tax for the year would have been approximately HK$Nil (2016: approximately HK$19,000) lower/higher, arising as a result of the fair value gain/loss of the investments.

6. FINANCIAL RISK MANAGEMENT (Continued)

C) CREDIT RISK

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2017 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade and other receivables, financial assets at fair value through profit or loss and restricted and pledged bank deposits, bank and cash balances. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on bank and cash balances and restricted and pledged bank deposits are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

D) LIQUIDITY RISK

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flows	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017					
Trade and other payables	**147,973**	**—**	**—**	**147,973**	**147,973**
Bank loans	**5,907**	**—**	**—**	**5,907**	**5,525**
Bonds	**1,593**	**20,966**	**3,068**	**25,627**	**22,750**
Entrusted loan	**12,785**	**62,481**	**—**	**75,266**	**60,046**
	168,258	**83,447**	**3,068**	**254,773**	**236,294**

6. FINANCIAL RISK MANAGEMENT (Continued)

D) LIQUIDITY RISK (Continued)

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total contractual undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2016					
Trade and other payables	57,885	—	—	57,885	57,885
Bank loans	5,337	—	—	5,337	5,177
Bonds	1,593	1,593	24,034	27,220	22,750
Entrusted loan	57,921	—	—	57,921	55,836
	122,736	1,593	24,034	148,363	141,648

E) INTEREST RATE RISK

The Group's exposure to fair value interest rate risk arises primarily from the Group's interest-bearing borrowings which carry interest at fixed rates.

The Group has no significant interest-bearing assets and liabilities at floating rate. The Group's operating cash flows are substantially independent of changes in market interest rates.

F) CATEGORIES OF FINANCIAL INSTRUMENTS AT 31 DECEMBER

	2017 HK$'000	2016 HK$'000
Financial assets:		
Financial assets at fair value through profit or loss	**—**	93
Loans and receivables (including cash and cash equivalents)	**205,445**	150,767
	205,445	150,860
Financial liabilities:		
Financial liabilities at amortised cost	**236,294**	141,648

G) FAIR VALUE

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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 following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

Disclosures of level in fair value hierarchy at 31 December 2016:

	Fair value measurement using:			**Total**
Description	**Level 1**	**Level 2**	**Level 3**	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurements:				
Financial assets at fair value through profit or loss				
Listed securities in Hong Kong	93	—	—	93

8. REVENUE

The Group's revenue is as follows:

	2017	2016
	HK$'000	HK$'000
Sales of wastewater treatment machines and related services	**3,321**	19,791
Sales of goods	**19,615**	598
Wastewater treatment services	**5,295**	14,300
Fertility medical treatment services	**50,935**	—
	79,166	34,689

9. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Interest income on bank deposits	**221**	153
Interest income on other receivable	**—**	110
Others	**160**	114
	381	377

10. OTHER LOSSES, NET

	2017 HK$'000	2016 HK$'000
Net loss on disposal of property, plant and equipment	**—**	(2,992)
Write-off of property, plant and equipment	**—**	(6,979)
Write-off of trade receivables	**(3,823)**	—
Loss on financial assets at fair value through profit or loss	**(28)**	(6)
Gain on sale and leaseback of property, plant and equipment	**228**	556
Gain on disposal of a subsidiary	**30**	—
Impairment loss on trade receivables	**(12,567)**	(3,304)
Fair value change on a derivative financial asset	**(3,141)**	—
Other	**(225)**	871
	(19,526)	(11,854)

11. SEGMENT INFORMATION

The Group manages its business by divisions which are organised from the products/services perspective.

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the executive Directors, being the chief operating decision-maker ("**CODM**") for the purposes of resources allocation and performance assessment. The Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

I. WASTEWATER TREATMENT AND CONSTRUCTION SERVICES

This segment engages in the provision of wastewater treatment plants construction and operation services.

II. WASTEWATER TREATMENT EQUIPMENT TRADING

This segment engages in the trading of wastewater treatment facilities and machineries and the provision for related services.

III. FERTILITY MEDICAL TREATMENT SERVICES

This segment engages in the provision of fertility medical treatment and fertility related medical services.

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

The accounting policies of the reportable segments follow the Group's accounting policies. Segment profit/(loss) represents the profit earned by/(loss) from each segment without allocation of central administration costs such as Directors' salaries and unallocated other income/losses. This is the measure reported to the CODM for purposes of resources allocation and performance assessment. Taxation charge/(credit) is not allocated to reportable segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation and amortisation of assets attributable to those segments.

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

All assets are allocated to reportable segments other than the financial assets at fair value through profit or loss, unallocated cash and cash equivalents and corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

11. SEGMENT INFORMATION (Continued)

All liabilities are allocated to reportable segments other than current and deferred tax liabilities, borrowings not attributable to individual segments and corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

(A) INFORMATION ABOUT REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES:

	Fertility medical treatment services HK$'000	Wastewater treatment and construction services HK$'000	Wastewater treatment equipment trading HK$'000	Subtotal HK$'000	Unallocated HK$'000	Total HK$'000
For the year ended 31 December 2017						
Revenue from external customers	50,935	5,295	22,936	79,166	—	79,166
Segment (loss)/profit	(4,965)	142	(32,089)	(36,912)	(17,685)	(54,597)
Interest income	64	—	140	204	17	221
Finance costs	—	31	7,457	7,488	1,593	9,081
Depreciation and amortisation	11,536	2,229	363	14,128	92	14,220
Write-down of inventories	—	474	70	544	—	544
Write-off of trade receivables	—	—	3,823	3,823	—	3,823
Gain on disposal of a subsidiary	—	—	30	30	—	30
Impairment loss on trade and other receivables	—	200	12,367	12,567	—	12,567
Additions to non-current assets (other than financial assets and deferred tax assets)	4,411	1,130	—	5,541	—	5,541
As at 31 December 2017						
Reportable segment assets	278,870	40,268	36,962	356,100		
Reportable segment liabilities	8,934	37,857	131,965	178,756		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. SEGMENT INFORMATION (Continued)

(A) INFORMATION ABOUT REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES: (Continued)

	Wastewater treatment and construction services HK$'000	Wastewater treatment equipment trading HK$'000	Subtotal HK$'000	Unallocated HK$'000	Total HK$'000
For the year ended 31 December 2016					
Revenue from external customers	14,300	20,389	34,689	—	34,689
Segment loss	(6,739)	(33,170)	(39,909)	(22,632)	(62,541)
Interest income	36	115	151	2	153
Finance costs	262	7,829	8,091	1,446	9,537
Depreciation and amortisation	3,808	646	4,454	91	4,545
Write-down of inventories	—	7,750	7,750	—	7,750
Loss on disposal and write off of property, plant and equipment	6,979	1,994	8,973	998	9,971
Impairment loss on trade and other receivables	3,267	37	3,304	—	3,304
Additions to non-current assets (other than financial assets and deferred tax assets)	30	61	91	—	91
As at 31 December 2016					
Reportable segment assets	19,655	54,820	74,475		
Reportable segment liabilities	20,864	103,300	124,164		

11. SEGMENT INFORMATION (Continued)

(B) RECONCILIATIONS OF REPORTABLE SEGMENT PROFIT OR LOSS:

	2017 HK$'000	2016 HK$'000
Total loss of reportable segments	**(36,912)**	(39,909)
Other losses, net	**(28)**	(127)
Unallocated amortisation and depreciation	**(91)**	(91)
Unallocated head office and corporate expenses	**(17,566)**	(22,414)
Consolidated loss before tax	**(54,597)**	(62,541)

(C) RECONCILIATIONS OF REPORTABLE SEGMENT ASSETS AND LIABILITIES:

	2017 HK$'000	2016 HK$'000
Assets		
Total assets of reportable segments	**356,100**	74,475
Unallocated		
— financial assets at fair value through profit or loss	**—**	93
— cash and cash equivalents and restricted deposits	**55,771**	93,290
— corporate assets	**1,660**	1,525
Consolidated total assets	**413,531**	169,383
Liabilities		
Total liabilities of reportable segments	**178,756**	124,164
Unallocated		
— current tax liabilities	**20,744**	11,932
— deferred tax liabilities	**13,030**	657
— corporate liabilities	**70,618**	27,562
Consolidated total liabilities	**283,148**	164,315

11. SEGMENT INFORMATION (Continued)

(D) GEOGRAPHICAL INFORMATION

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of the intangible assets and goodwill, it is based on the location of the operation to which they are allocated.

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**—**	—	**174,842**	182
The PRC	**78,091**	34,689	**13,485**	7,229
Island of Saipan, Commonwealth of Northern Mariana Islands ("**CNMI**")	**1,075**	—	**1,685**	—
Singapore	**—**	—	**14,165**	—
	79,166	34,689	**204,177**	7,411

(E) REVENUE FROM MAJOR CUSTOMERS

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	2017	2016
	HK$'000	HK$'000
Wastewater treatment operation services		
Customer A	**—**	10,230
Wastewater treatment equipment trading		
Customer B	**—**	8,451
Customer C	**—**	3,496
Customer D	**—**	3,455
Fertility medical treatment services		
Customer E	**7,880**	—
Customer F	**7,880**	—
Customer G	**9,908**	—

12. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Finance lease charges	**29**	262
Interest expenses on:		
— Bank borrowings	**425**	628
— Entrusted loan	**7,033**	7,130
— Bonds	**1,594**	1,446
— Others	**—**	71
Total borrowing costs	**9,081**	9,537

13. INCOME TAX EXPENSES/(CREDIT)

Income tax has been recognised in consolidated profit or loss as following:

	2017 HK$'000	2016 HK$'000
Hong Kong Profits Tax		
— Provision for the year	**6,032**	—
Island of Saipan, CNMI Corporate Income Tax		
— Provision for the year	**628**	—
PRC Enterprise Income Tax		
— Over provision in prior years	**—**	(633)
Deferred tax *(note 31)*	**(2,196)**	(1,821)
Income tax expenses/(credit)	**4,464**	(2,454)

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2017. No provision for Hong Kong profits tax has been made as the Group has no assessable profit arising in Hong Kong for the year ended 31 December 2016.

Beijing Jingrui Kemai Water Purification Technology Company Limited, a wholly-owned subsidiary of the Company enjoys high-tech enterprise income tax benefit from 2015 to 2017 and the tax rate is 15%.

The Covenant of the CNMI provides for the imposition of the Internal Revenue Code of the United States as the local income tax. CNMI legislation provides for income tax rebates with descending graduated percentages ranging from 90% to 50% on local income tax on CNMI source income and takes progressive tax rate. The CNMI also imposes graduated (1.5% to 5%) Business gross revenue tax ("**BGRT**"). The legislation requires the payment of corporate income tax on CNMI source income only to the extent the pre-rebate income tax exceeds BGRT.

13. INCOME TAX EXPENSES/(CREDIT) (Continued)

The reconciliation between the income tax expenses/(credit) and the product of loss before tax multiplied by the applicable tax rates is as follows:

	2017 **HK$'000**	2016 HK$'000
Loss before tax	**(54,597)**	(62,541)
Notional tax on loss before tax, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(13,366)**	(13,048)
Tax effect of		
— non-deductible expenses	**14,047**	6,422
— non-taxable income	**(791)**	(262)
— tax losses not recognised	**3,724**	5,067
— utilisation of previously unrecognised tax losses	**(333)**	—
— tax reduction	**(202)**	—
— effect of different tax rates of inter-company transactions	**1,385**	—
— over provision in prior years	**—**	(633)
Income tax expenses/(credit)	**4,464**	(2,454)

14. LOSS BEFORE TAX

The Group's loss before tax is stated after charging the following:

	2017 HK$'000	2016 HK$'000
Amortisation of intangible assets*	**12,607**	1,685
Cost of inventories sold	**10,613**	16,747
Depreciation	**1,613**	2,860
Write-down of obsolete inventories (included in cost of sales)	**544**	7,750
Net loss on disposal of property, plant and equipment	**—**	2,992
Auditors' remuneration	**1,100**	720
Staff costs (including Directors' emoluments)		
— Salaries, wages and other benefits	**20,466**	19,221
— Pension costs-defined contribution plans	**1,769**	1,487
	22,235	20,708
Operating lease charges in respect of properties	**26,242**	7,627
Write-off of trade receivables	**3,823**	—
Impairment loss on trade receivables	**12,567**	3,304

* The amortisation of intangible assets (other than club memberships) are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

15. BENEFITS AND INTERESTS OF DIRECTORS AND EMPLOYEES

(A) DIRECTORS' EMOLUMENTS

The remuneration of each Director is as follows:

	Year ended 31 December 2017 Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiary undertaking				
	Directors' fees HK$'000	Salaries HK$'000	Retirement scheme contributions HK$'000	Equity share-based payment HK$'000	Total HK$'000
Executive Directors					
Mr. Xu Zhong Ping	—	1,950	—	—	1,950
Mr. Zhang Fang Hong (retired on 29 May 2017)	—	—	—	—	—
Mr. Xu Xiao Yang	—	1,950	—	—	1,950
Ms. Hu Yueyue (appointed on 9 June 2017)	—	1,660	—	—	1,660
	—	5,560	—	—	5,560
Non-executive Directors					
Mr. Cao Guoxian (retired on 29 May 2017)	—	—	—	—	—
Mr. Ma Tian Fu	240	—	—	—	240
	240	—	—	—	240
Independent non-executive Directors					
Mr. Tse Chi Wai	120	—	—	—	120
Prof. Zhu Nan Wen	120	—	—	—	120
Prof. Li Jun (appointed on 6 April 2016)	120	—	—	—	120
	360	—	—	—	360
	600	5,560	—	—	6,160

15. BENEFITS AND INTERESTS OF DIRECTORS AND EMPLOYEES (Continued)

(A) DIRECTORS' EMOLUMENTS (Continued)

	Year ended 31 December 2016 Emoluments paid or receivable in respect of a person's services as a Director whether of the Company or its subsidiary undertaking				
	Directors' fees HK$'000	Salaries HK$'000	Retirement scheme contributions HK$'000	Equity share-based payment HK$'000	Total HK$'000
Executive Directors					
Mr. Xu Zhong Ping	—	1,950	—	—	1,950
Mr. Pan Yutang (resigned on 27 September 2016)	—	948	—	—	948
Mr. Zhang Fang Hong (retired on 29 May 2017)	—	948	—	—	948
Mr. Xu Xiao Yang	—	1,300	—	—	1,300
	—	5,146	—	—	5,146
Non-executive Directors					
Mr. Cao Guoxian (retired on 29 May 2017)	—	—	—	—	—
Mr. Ma Tian Fu	240	—	—	—	240
	240	—	—	—	240
Independent non-executive Directors					
Mr. Tse Chi Wai	120	—	—	—	120
Prof. Zhu Nan Wen	120	—	—	—	120
Prof. Li Jun (appointed on 6 April 2016)	90	—	—	—	90
Prof. Zuo Jiane (resigned on 6 April 2016)	30	—	—	—	30
	360	—	—	—	360
	600	5,146	—	—	5,746

Executive Directors, Zhang Fang Hong has agreed to waive of approximately HK$395,000 emoluments during the year (2016: HK$Nil)

15. BENEFITS AND INTERESTS OF DIRECTORS AND EMPLOYEES (Continued)

(B) DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(C) FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals in the Group during the year included three (2016: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2016: one) individual are set out below:

	2017	2016
	HK$'000	HK$'000
Salaries and other emoluments	**1,874**	910
Retirement scheme contributions	**—**	—
Equity-settled share-based payments	**—**	—
	1,874	910

The emoluments fell within the following band:

	Number of individuals	
	2017	2016
HK$Nil — HK$1,000,000	**2**	1

During the year, no emoluments were paid by the Group to any of the Directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: HK$Nil).

17. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following:

	2017	2016
	HK$'000	HK$'000
Loss		
Loss for the year for the purpose of calculating basic and diluted loss per share	**(60,666)**	(55,239)
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**3,491,866**	2,518,220

Basic and diluted loss per share for the years ended 31 December 2017 and 2016 were the same as the Company had no dilutive potential ordinary shares in issue during the years.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Leasehold land and buildings HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2016	1,377	14,161	14,038	2,625	4,389	36,590
Exchange adjustments	(24)	(253)	(364)	40	(196)	(797)
Additions	44	—	—	30	17	91
Transferred	(351)	351	—	—	—	—
Disposals/written off	(1,046)	(14,259)	(10,407)	—	(134)	(25,846)
At 31 December 2016 and 1 January 2017	—	—	3,267	2,695	4,076	10,038
Exchange adjustments	157	—	305	121	262	845
Additions	4,123	—	1,098	250	70	5,541
Acquired through acquisition of subsidiaries	2,180	—	1,601	162	83	4,026
Disposals/written off	—	—	—	—	(305)	(305)
At 31 December 2017	6,460	—	6,271	3,228	4,186	20,145
Accumulated depreciation						
At 1 January 2016	21	—	2,344	2,314	2,910	7,589
Exchange adjustments	—	—	(65)	38	(110)	(137)
Charge for the year	—	193	2,103	98	466	2,860
Written back on disposals/written off	(21)	(193)	(3,428)	—	(116)	(3,758)
At 31 December 2016 and 1 January 2017	—	—	954	2,450	3,150	6,554
Exchange adjustments	—	—	102	95	219	416
Charge for the year	134	—	990	105	384	1,613
Written back on disposals/written off	—	—	—	—	(214)	(214)
At 31 December 2017	134	—	2,046	2,650	3,539	8,369
Carrying amount						
At 31 December 2017	6,326	—	4,225	578	647	11,776
At 31 December 2016	—	—	2,313	245	926	3,484

19. INTANGIBLE ASSETS

	Club memberships	Patent	Contractual customer relationship	Distribution channel	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Note (i)	Note (ii)	Note (iii)	Note (iv)	
Cost					
At 1 January 2016	1,849	61,238	579	—	63,666
Exchange adjustments	(114)	(3,771)	(36)	—	(3,921)
At 31 December 2016 and 1 January 2017	1,735	57,467	543	—	59,745
Exchange adjustments	131	4,342	41	—	4,514
Addition	—	—	—	88,095	88,095
At 31 December 2017	1,866	61,809	584	88,095	152,354
Accumulated amortisation and impairment losses					
At 1 January 2016	382	56,868	515	—	57,765
Amortisation charge	80	1,542	63	—	1,685
Exchange adjustments	(27)	(3,570)	(35)	—	(3,632)
At 31 December 2016 and 1 January 2017	435	54,840	543	—	55,818
Amortisation charge	79	1,516	—	11,012	12,607
Exchange adjustments	36	4,207	41	—	4,284
At 31 December 2017	550	60,563	584	11,012	72,709
Carrying amount					
At 31 December 2017	1,316	1,246	—	77,083	79,645
At 31 December 2016	1,300	2,627	—	—	3,927

19. INTANGIBLE ASSETS (Continued)

Notes:

(i) The Group holds a membership right in Sand River Golf Club with a useful life of 23 years.

(ii) The patent of the wastewater treatment equipment trading segment has a finite life and will expire on 16 October 2018. The Group engaged Grant Sherman Appraisal Limited to carry out the valuation of the patent at 31 December 2017. Grant Sherman adopted a relief-from-royalty approach, a form of income approach, at a post-tax discount rate of 19% (2016: 19%) to determine the recoverable amount of the patent. The calculation is based on a financial projection covering a period of approximately 1 year. Management estimated the financial projection based on management approved budget which is based on a forecast of operating results for the first year.

The amortisation charge of approximately HK$1,516,000 (2016: approximately HK$1,542,000) was included in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

(iii) Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The amortisation charge of approximately HK$Nil (2016: approximately HK$63,000) is included in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

(iv) Distribution channel relationships acquired in a business combination are recognised at fair value at the acquisition date. The amortisation charge of approximately HK$11,012,000 (2016: Nil) is included in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

20. DEPOSITS PAID FOR PROPERTY, PLANT AND EQUIPMENT

Included in the balance above, deposits of approximately HK$10,711,000 was paid by the Group in relation to the purchase of equipment at a consideration of approximately HK$22,957,000. The equipment was intended to be used by the Group for medical training center in Singapore .

21. GOODWILL

	Pacific Fertility Institutes HK$'000 Note (i)	Beijing Jianbao Kangying HK$'000 Note (ii)	Total HK$'000
Cost			
At 1 January 2016, 31 December 2016, 1 January 2017	—	—	—
Arising from business combination	97,667	2,937	100,604
At 31 December 2017	97,667	2,937	100,604
Impairment			
At 1 January 2016, 31 December 2016, 1 January 2017	—	—	—
Impairment during the year	—	—	—
	—	—	—
Carrying amount			
At 31 December 2017	97,667	2,937	100,604
At 31 December 2016	—	—	—

Notes:

(i) The recoverable amount of the CGU is determined on the basis of its value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rate, growth rate and budgeted gross margin and turnover during the period. The Group estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and risk specific to the CGU. The growth rate is based on long-term average economic growth rate of the geographical area in which the business of the CGU operates. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Directors for the next five years with the residual period using the growth rate of 3%. This rate does not exceed the average long-term growth rate for the relevant market. The rate used to discount the forecast cash flows from the Group's fertility medical treatment services is 14.5% (level 3 fair value measurements).

(ii) The recoverable amount of this CGU is determined by reference to the value-in-use approach, which is based on discounted cash flow based on the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15.5% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using a steady 3% growth rate.

22. INTERESTS IN ASSOCIATES

	2017 **HK$'000**	2016 HK$'000
Share of net assets	**—**	—

The particulars of the associate of the Group, which is unlisted, as at 31 December 2017, are as follows:

Name of associate	**Particulars of paid up registered capital**	**Proportion of ownership interest indirectly held by the Company** 2017	2016	**Principal activity**
Luyuan (Beijing) Environmental Equipment Co., Ltd. 綠源(北京)環保設備股份有限公司 ("**Luyuan (Beijing)**")	RMB5,000,000	35%	35%	Trading and installation of environmental equipment
Bejing CETH Assets Management Co., Ltd 北京中環科資本管理有限公司 ("**Bejing CETH Assets Management**")	RMB1,000,000	49%	—	Asset management

The Group's share of the amount of the immaterial associate that are accounted for using the equity method:

	Luyuan (Beijing)		**Bejing CETH Assets Management**	
	2017 **HK$'000**	2016 HK$'000	**2017** **HK$'000**	2016 HK$'000
At 31 December				
Carrying amount of interests	**—**	—	**—**	—
For the year ended 31 December				
Loss for the year	**—**	—	**—**	—
Other comprehensive income	**—**	—	**—**	—
Total comprehensive income	**—**	—	**—**	—

22. INTERESTS IN ASSOCIATES (Continued)

The Group has discontinued the recognition of its share of loss of the associate because the share of loss of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were approximately HK$13,000 (2016: approximately HK$1,238,000) and approximately HK$1,945,000 (2016: approximately HK$1,932,000), respectively.

As at 31 December 2017, the bank and cash balances of the Group' associate in the PRC denominated in RMB amounted to approximately HK$983,000 (2016: approximately HK$262,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**1,710**	1,302
Work-in-progress	**5,097**	3,380
Finished goods	**4,107**	3,196
	10,914	7,878

24. TRADE AND OTHER RECEIVABLES

		2017	2016
	Notes	**HK$'000**	HK$'000
Trade receivables		**61,788**	37,274
Less: allowance for doubtful debts		**(28,405)**	(15,112)
		33,383	22,162
Other receivables	(i)	**71,156**	32,487
Trade deposits		**—**	73
Prepayments and deposits	(ii)	**10,106**	3,161
Amounts due from non-controlling interests	(iii)	**416**	—
		115,061	57,883

24. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(i) (a) The Group and the landlord were agreed to rescind the tenancy agreement orally before year ended, and the effective date was on 31 December 2017, and had signed the official rescind agreement on 6 March 2018. Since the Group had not occupied the property and the agreement had been rescinded, no amortization of rental expenses were recognised. As at 31 December 2017, the other receivable paid of total amount of approximately HK$33,631,000 (2016: HK$Nil) would be refunded on schedule.

(b) As at 31 December 2017, approximately HK$24,022,000 (2016: approximately HK$22,334,000) was the final payment of disposal of Fanhe (Hulu Island) Water Investment Company Limited ("**Fanhe Hulu**"), a then wholly-owned subsidiary on 17 February 2015. The final payment will be received after completion of the reconstruction project of Fanhe Hulu and receiving the acceptance report from the government.

(c) As at 31 December 2017, approximately HK$4,444,000 (2016: HK$Nil) was deposits paid for future leasehold improvements.

(d) As at 31 December 2017, approximately HK$2,162,000 (2016: approximately HK$2,010,000) was loans made to sub-contractors for the Group's construction projects.

(ii) As at 31 December 2017, approximately HK$8,426,000 (2016: approximately HK$1,932,000) was rental deposits and prepayment paid for operating lease in respect of properties.

(iii) The amounts due from non-controlling interests are unsecured, interest-free and has no fixed repayment terms.

Trade receivables are due in accordance with contract terms or within 2 months from the date of billing.

As at 31 December 2017 and 2016, the ageing analysis of the trade receivables, based on the invoice date, and net of allowance were as follows:

	2017 **HK$'000**	2016 HK$'000
Within 2 months	**31,819**	4,795
More than 2 months but within 3 months	**306**	—
More than 3 months but within 12 months	**1,258**	3,610
More than 12 months	**—**	13,757
	33,383	22,162

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

24. TRADE AND OTHER RECEIVABLES (Continued)

As of 31 December 2017, trade receivables of approximately HK$1,564,000 (2016: approximately HK$750,000) were past due but not impaired. These relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group did not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**31,819**	21,412
Less than 1 month past due	**306**	—
More than 1 month but within 2 months past due	**353**	—
More than 2 months but within 3 months past due	**24**	—
More than 3 months but less than 12 months past due	**881**	—
More than 12 months past due	**—**	750
	33,383	22,162

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

As at 31 December 2017, trade receivables of the Group amounting to approximately HK$28,405,000 (2016: approximately HK$15,112,000) were individually determined to be impaired. The individually impaired receivables were outstanding for more than 12 months at the end of the reporting period.

Movements in the allowance for doubtful debts

	2017 HK$'000	2016 HK$'000
At 1 January	**15,112**	11,992
Allowance for the year	**12,567**	3,304
Exchange adjustments	**726**	(184)
At 31 December	**28,405**	15,112

The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Listed equity securities in Hong Kong, at fair value	—	93

The fair value of listed equity securities is based on their quoted prices at the end of the reporting period (level 1 fair value measurements).

26. RESTRICTED AND PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

	2017 HK$'000	2016 HK$'000
Restricted and pledged bank deposits *(Note)*	—	755
Cash and bank balances	83,379	95,363
	83,379	96,118

At 31 December 2017, the bank deposits and cash and bank balances of the PRC's subsidiaries denominated in RMB amounted to approximately HK$14,470,000 (2016: approximately HK$2,811,000). The RMB is not freely convertible into other currencies. However, under the PRC'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.

Note: As at 31 December 2016, the restricted deposit of the Group amounting to approximately HK$755,000 will be paid to customer once the Company breach of contract.

27. TRADE AND OTHER PAYABLES

	Notes	2017 HK$'000	2016 HK$'000
Trade payables		30,063	20,660
Other payables of convertible bonds	(i)	54,530	—
Other payables		61,921	30,398
Other tax payable		4,634	2,122
Amount due to non-controlling interests	(ii)	1,459	4,705
Sales deposits received		8,446	8,121
		161,053	66,006

27. TRADE AND OTHER PAYABLES (Continued)

Notes:

(i) The Company received approximately HK$54,530,000 from convertible bonds holder before year ended which the issue of convertible bonds was completed on 16 January 2018.

(ii) The amount due to non-controlling interests of approximately HK$Nil (2016: approximately HK$1,156,000) was unsecured, interest-bearing at a fixed rate of 15% per annum and repayable within one year. The remaining amount due to non-controlling interests of approximately HK$1,459,000 (2016: approximately HK$3,549,000) was unsecured, interest-free and has no fixed term of repayment.

The ageing analysis of the trade payables based on the date of receipt of goods/services, is as follows:

	2017	2016
	HK$'000	HK$'000
Within 1 month	**14,563**	4,905
After 1 month but within 3 months	**489**	249
After 3 months but within 6 months	**887**	4,058
After 6 months but within 1 year	**3,344**	3,699
After 1 year	**10,780**	7,749
	30,063	20,660

28. BORROWINGS

The analysis of the carrying amount of borrowings is as follows:

	2017	2016
	HK$'000	HK$'000
Bank loans *(note (a))*	**5,525**	5,177
Entrusted loan *(note (b))*	**60,046**	55,836
Bonds *(note (c))*	**22,750**	22,750
Total borrowings	**88,321**	83,763
The borrowings are repayable as follows:		
Within one year	**65,571**	61,013
In the third to fifth years, inclusive	**22,750**	22,750
	88,321	83,763
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(65,571)**	(61,013)
Amount due for settlement after 12 months	**22,750**	22,750

The carrying amounts of all borrowings are denominated in RMB, except the bonds are denominated in HKD.

28. BORROWINGS (Continued)

Notes:

(a) The effective interest rates (which also equal contractual interest rates) on the Group's fixed rate bank loans of approximately HK$5,525,000 (2016: approximately HK$5,177,000) is 7.80% (2016: 4.29% to 7.80%) per annum.

As at 31 December 2017 and 2016, the bank loans were secured by corporate guarantees given by the subsidiary of the Company.

(b) On 19 March 2013, Shenzhen CETH Environmental Technology Co., Ltd., a wholly-owned subsidiary of the Company, entered into an entrusted loan agreement with an independent third party through commissioning a bank to borrow a loan of RMB50,000,000 for a period of three years from 23 April 2013 to 22 April 2016, and extended one year to 21 April 2017 when expired. The loan is secured by a guarantee from the Company. As at 31 December 2017, the loan was expired and the interest expenses of approximately HK$5,304,000 was not yet paid. The effective interest rate of the entrusted loan (which also equals contractual interest rate) was 12% (2016: 12%) per annum.

(c) As at 31 December 2017, the Group have issued six (2016: six) unlisted straight bonds to five (2016: five) independent investors in an aggregate principal amount of HK$22,750,000 (2016: HK$22,750,000) (the "**Bonds**"). The Bonds are unsecured, arranged at fixed interest rates of 7% per annum and redeemed in full upon the maturity, i.e. three or four years from the date of issue.

29. DEFERRED REVENUE

During the year ended 31 December 2014, the Group disposed of three machineries at proceeds of approximately HK$10,710,000, and leaseback these machineries under a 3-years term finance lease. The deferred revenue arises from this sale and lease back transaction of machineries, the excess of sales proceeds over the carrying amount of approximately HK$1,796,000 has been deferred and amortised over the lease term.

	2017	2016
	HK$'000	HK$'000
Analysed as:		
Current liabilities	—	221

30. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**—**	1,786	**—**	1,736
In the second to fifth years, inclusive	**—**	—	**—**	—
	—	1,786	**—**	1,736
Less: Future finance charges	**—**	(50)	**—**	N/A
Present value of lease obligations	**—**	1,736	**—**	1,736
Less: Amount due for settlement within 12 months (shown under current liabilities)			**—**	(1,736)
Amount due for settlement after 12 months			**—**	—

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 3 years. At 31 December 2017, the average effective borrowing rate was 7.69%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the plant and machinery at nominal prices.

All finance lease payables are denominated in RMB.

The Group's finance lease payables are secured by the lessor's title to the leased assets at 31 December 2016.

31. DEFERRED TAX

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year were as follows:

	Intangible assets HK$'000	Revaluation of leasehold land and buildings HK$'000	Total HK$'000
At 1 January 2016	1,107	1,420	2,527
Credited to profit or loss *(notes 13)*	(401)	(1,420)	(1,821)
Exchange adjustments	(49)	—	(49)
At 31 December 2016 and 1 January 2017	657	—	657
Acquisition of a subsidiary	14,536	—	14,536
Credited to profit or loss *(notes 13)*	(2,196)	—	(2,196)
Exchange adjustments	33	—	33
At 31 December 2017	13,030	—	13,030

The following is the analysis of the deferred tax balances (after offset) for consolidated statement of financial position purposes:

	2017 HK$'000	2016 HK$'000
Deferred tax liabilities	**13,030**	657

As at 31 December 2017, subject to agreement by tax authority, the Group had estimated tax losses of approximately HK$145,856,000 (2016: approximately HK$145,856,000) in Hong Kong which are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which the losses arose. The tax losses do not expire under the current Hong Kong tax legislation. Tax losses of approximately HK$159,501,000 (2016: approximately HK$140,596,000) in the PRC are available for offsetting against future profits that may be carried forward for five years for PRC enterprise income tax purpose.

31. DEFERRED TAX (Continued)

As at 31 December 2017, temporary differences relating to the undistributed profits of subsidiaries amounted to approximately HK$Nil (2016: approximately HK$1,982,000). Deferred tax liabilities of approximately HK$Nil (2016: approximately HK$198,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's foreign-invested enterprises in the PRC as the Company controls the dividend policy of these foreign-invested enterprises and it is probable that such differences will not be reversed in the foreseeable future.

32. SHARE CAPITAL

	Notes	Number of ordinary shares of HK$0.025 per share HK$'000	HK$'000
Authorised			
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017		8,000,000	200,000
Issued and fully paid			
At 1 January 2016		2,500,303	62,508
Subscription of shares	(a)	55,608	1,390
Placement of shares	(b)	444,448	11,111
At 31 December 2016		3,000,359	75,009
Issue of consideration shares	(c)	650,000	16,250
At 31 December 2017		3,650,359	91,259

Notes:

(a) Completion of the subscription of shares took place on 24 November 2016 pursuant to which 55,608,000 new shares were issued under the subscription agreement at the subscription price of HK$0.18 per subscription share. Accordingly, the Company's issued share capital was increased by approximately HK$1,390,000 and its share premium account was increased by approximately HK$8,554,000. Net proceeds from the issues after deduction of expenses of approximately HK$65,000, were approximately HK$9,944,000.

(b) Completion of the share placement took place on 22 December 2016 pursuant to which 444,448,000 placement shares were issued under the placement agreement at the placement price of HK$0.19 per placement share. Accordingly, the Company's issued share capital was increased by approximately HK$11,111,000 and its share premium account was increased by approximately HK$72,294,000. Net proceeds from the issues after deduction of expenses of approximately HK$1,040,000, were approximately HK$83,405,000.

(c) Completion of the subscription of consideration shares took place on 31 March 2017 pursuant to which 650,000,000 consideration shares were issued to acquire a subsidiary at consideration price of HK$0.27 per consideration share with reference to the quoted market closing price of HK$0.22 of the Company's shares on the date of completion. Accordingly, the Company's issued share capital was increased by approximately HK$16,250,000 and its share premium account was increased by approximately HK$126,750,000. Net proceeds from the issues after deduction of expenses of approximately HK$Nil, were approximately HK$143,000,000.

33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	**91**	182
Investments in and loans to subsidiaries	**190,733**	29,088
	190,824	29,270
Current assets		
Other receivables and deposits	**13,107**	1,270
Cash and cash equivalents	**55,518**	93,140
	68,625	94,410
Current liabilities		
Other payables	**60,114**	4,795
Amounts due to subsidiaries	**91,133**	91,135
	151,247	95,930
Net current liabilities	**(82,622)**	(1,520)
Total assets less current liabilities	**108,202**	27,750
Non-current liability		
Borrowings	**22,750**	22,750
NET ASSETS	**85,452**	5,000
Capital and reserves		
Share capital	**91,259**	75,009
Reserves	**(5,807)**	(70,009)
TOTAL EQUITY	**85,452**	5,000

33. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

(b) Reserve movement of the Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	162,813	59,063	(298,109)	(76,233)
Loss for the year	—	—	(74,624)	(74,624)
Issue of shares on subscription	8,554	—	—	8,554
Issue of shares on placing	72,294	—	—	72,294
At 31 December 2016 and 1 January 2017	243,661	59,063	(372,733)	(70,009)
Loss for the year	—	—	(62,548)	(62,548)
Issue of consideration shares	126,750	—	—	126,750
At 31 December 2017	370,411	59,063	(435,281)	(5,807)

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium and contributed surplus

Under the Companies Law (Revised) of the Cayman Islands, the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The contributed surplus of the Company arose from the difference between the consolidated net assets of the Group's subsidiaries acquired and the nominal value of the Company's ordinary shares issued pursuant to the Group reorganisation in 2002.

(ii) Foreign currency reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.

34. RESERVES (Continued)

(b) Nature and purpose of reserves (Continued)

(iii) Other reserves

The other reserves mainly comprise the statutory reserve of subsidiaries in the PRC. Subsidiaries of the Group in the PRC follow the accounting principles and relevant financial regulations of the PRC, in the preparation of their accounting records and financial statements. Pursuant to the accounting regulations for business enterprises, the subsidiaries are required to appropriate 10% of the profit arrived at for each year to statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to owners. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

(iv) Property revaluation reserve

Revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings in note 4. The revaluation reserve is not distributable to shareholders.

(v) Distributability of reserve

At 31 December 2017, the aggregate amount of reserves available for distribution to owners of the Company was HK$Nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. DISPOSAL OF A SUBSIDIARY

On 12 May 2017, the Group disposed 51% of the issued share capital of Beijing CETH Asset Management Limited ("**Beijing CETH**"), a wholly-owned subsidiary of the Company, at a consideration of RMBNil (equivalent HK$Nil).

The fair value of the identifiable assets and liabilities of Beijing CETH disposed as at its date of disposal is as follows:

Net liabilities at the date of disposal were as follows	**2017** **HK$'000**
Bank and cash balances	**7**
Amount due to the Group	**—**
Accruals and other payable	**(43)**
Net liabilities disposal of	**(36)**
Release of foreign currency translation reserve	**6**
Gain on disposal of Beijing CETH	**30**
Consideration	**—**
Net cash outflow arising on disposal:	
Cash and cash equivalents disposed of	**(7)**

36. BUSINESS COMBINATION

(a) Acquisition of 50% entire issued share capital in Pacific Fertility Institutes Holding Company Limited ("Pacific Fertility Institutes")

On 31 March 2017, the Group completed the acquisition of 50% equity interest in Pacific Fertility Institutes, which was satisfied by allotment and issue of 650,000,000 ordinary shares of the Company. The fair value of the consideration shares of HK$143,000,000 was determined with reference to the quoted market closing price of HK$0.22 of the Company's shares on the date of completion.

Pacific Fertility Institutes is principally engaged in provision of fertility medical treatment services.

The fair value of assets acquired, liabilities assumed and the non-controlling interest at the date of completion of Pacific Fertility Institutes (the "**Completion Date**") is allocated as follows:

36. BUSINESS COMBINATION (Continued)

(a) Acquisition of 50% entire issued share capital in Pacific Fertility Institutes Holding Company Limited ("Pacific Fertility Institutes") (Continued)

	HK$'000
Property, plant and equipment	2,106
Intangible assets	88,095
Inventory	475
Trade and other receivables	2,198
Amount due from non-controlling shareholder	194
Bank and cash balances	8,054
Trade and other payable	(953)
Current tax liabilities	(1,249)
Deferred tax liabilities	(14,536)
Total identifiable net assets at fair value	84,384
Non-controlling interest — 50%	(42,192)
Goodwill	97,667
	139,859
Satisfied by:	
Fair value of 650,000,000 ordinary shares issued	143,000
Fair value of the Profit Guarantee	(3,141)
Total consideration transferred	139,859
Net cash inflow arising on acquisition:	
Cash consideration paid	—
Cash and cash equivalents acquired	8,054
	8,054

The goodwill represented the excess of the fair value of the consideration as at the Completion Date over the fair value of the net assets.

The non-controlling interests (50%) in Pacific Fertility Institutes recognised at the Completion Date was measured by reference to the non-controlling interests' proportionate share of Pacific Fertility Institutes identifiable net assets and amounted to approximately HK$42,192,000.

Acquisition-related costs of approximately HK$508,000 have been charged to the administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

36. BUSINESS COMBINATION (Continued)

(a) Acquisition of 50% entire issued share capital in Pacific Fertility Institutes Holding Company Limited ("Pacific Fertility Institutes") (Continued)

Pursuant to the terms of the acquisition of Pacific Fertility Institutes, the Vendor has irrevocably and unconditionally warranted and guaranteed to the Company the profits after taxation and excluding one-time gain or loss for the period of Pacific Fertility Institutes for the year ended 31 December 2017 not less than USD5,000,000 (the "**Profit Guarantee**") . In the event the Profit Guarantee is not fulfilled, the Vendor shall compensate the Group an amount prescribed in the agreement.

At Completion Date, with reference to an report by an independent qualified professional valuers not connected with the Group, the directors of the Company are of the opinion that the fair value of contingent consideration receivable resulting from Profit Guarantee is approximately HK$3,141,000.

During the period from 1 January 2017 to 31 December 2017, Pacific Fertility Institutes earned a net profit after taxation of approximately HK$39,048,000. The directors of the Company are of the opinion that profit guarantees of Pacific Fertility Institutes are most probably to be fulfilled.

Pacific Fertility Institutes contributed approximately HK$50,934,000 to the Group's revenue and a profit of approximately HK$11,183,000 to the consolidated statement of profit or loss and other comprehensive income during the period from the Completion Date to 31 December 2017.

Had the combination taken place at the beginning of the year ended 31 December 2017, the revenue of the Group and the loss of the Group for the year would have been approximately HK$90,538,000 and approximately HK$55,890,000, respectively. The pro forma information is for illustrative purpose only.

(b) Acquisition of 52.02% entire issued share capital in Hainan Yinkai

On 27 May 2017, the Group completed the acquisition of 52.02% equity interest in Hainan Yinkai. The consideration payable for the cash shall be approximately RMB20,808,000 (equivalent HK$23,742,000).

The acquisition is to extend the Group's business footprints into the asset acquisition, management and consultancy services industry in the PRC as well as to build business network in the PRC.

36. BUSINESS COMBINATION (Continued)

(b) Acquisition of 52.02% entire issued share capital in Hainan Yinkai (Continued)

	HK$'000
Property, plant and equipment	6
Trade and other receivables	35,566
Bank and cash balances	10,121
Trade and other payables	(53)
Total identifiable net assets at fair value	45,640
Non-controlling interest — 47.98%	(21,898)
	23,742
Satisfied by:	
Cash	23,742
Total consideration transferred	23,742
Net cash outflow arising on acquisition:	
Cash consideration paid	(23,742)
Cash and cash equivalents acquired	10,121
	(13,621)

Hainan Yinkai contributed approximately HK$Nil to the Group's revenue and a loss of approximately HK$303,000 to the consolidated statement of profit or loss and other comprehensive income during the period from 27 May 2017, being the date of completion, to 31 December 2017.

Had the combination taken place at the beginning of the year ended 31 December 2017, the revenue of the Group and the loss of the Group for the year would have been approximately HK$79,166,000 and approximately HK$60,681,000, respectively. The pro forma information is for illustrative purpose only.

36. BUSINESS COMBINATION (Continued)

(c) Acquisition of 90% entire issued share capital in Beijing Jianbao Kangying

On 23 November 2017, the Group completed the acquisition of 90% equity interest in Beijing Jianbao Kangying. The consideration payable for the cash shall be approximately RMB1 (equivalent HK$1).

	HK$'000
Property, plant and equipment	1,914
Trade and other receivables	388
Bank and cash balances	1,006
Trade and other payables	(6,571)
Total identifiable net liabilities at fair value	(3,263)
Non-controlling interest — 10%	326
Goodwill	2,937
	—
Satisfied by:	
Cash	—
Total consideration transferred	—
Net cash inflow arising on acquisition:	
Cash consideration paid	—
Cash and cash equivalents acquired	1,006
	1,006

Beijing Jianbao Kangying contributed approximately HK$Nil to the Group's revenue and a loss of approximately HK$1,467,000 to the consolidated statement of profit or loss and other comprehensive income during the period from 23 November 2017, being the date of completion, to 31 December 2017.

Had the combination taken place at the beginning of the year ended 31 December 2017, the revenue of the Group and the loss of the Group for the year would have been approximately HK$79,166,000 and approximately HK$63,526,000, respectively. The pro forma information is for illustrative purpose only.

36. BUSINESS COMBINATION (Continued)

(d) Acquisition of 90% entire issued share capital in Shenzhen Double Helix Investment Fund (Limited Partnership) ("Shenzhen Shuangluoxuan")

On 1 April 2017, the Group completed the acquisition of 90% equity interest in Shenzhen Shuangluoxuan. The consideration payable for the cash shall be approximately RMB3 (equivalent HK$3).

	HK$'000
Trade and other receivables	94
Bank and cash balances	6
Trade and other payables	(100)
Total identifiable net liabilities at fair value	—
Non-controlling interest — 10%	—
Goodwill	—
	—
Satisfied by:	
Cash	—
Total consideration transferred	—
Net cash inflow arising on acquisition:	
Cash consideration paid	—
Cash and cash equivalents acquired	6
	6

Shenzhen Shuangluoxuan contributed approximately HK$Nil to the Group's revenue and a loss of approximately HK$18,000 to the consolidated statement of profit or loss and other comprehensive income during the period from 1 April 2017, being the date of completion, to 31 December 2017.

Had the combination taken place at the beginning of the year ended 31 December 2017, the revenue of the Group and the loss of the Group for the year would have been approximately HK$79,166,000 and approximately HK$60,681,000, respectively. The pro forma information is for illustrative purpose only.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Other payables of convertible bonds	Borrowings	Finance lease payables	Total liabilities from financing activities
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	—	87,660	5,346	93,006
Changes in cash flows	—	(9,168)	(3,609)	(12,777)
Non-cash changes				
– interest charged	—	9,275	—	9,275
– exchange differences	—	(4,004)	(1)	(4,005)
At 31 December 2016 and 1 January 2017	—	83,763	1,736	85,499
Changes in cash flows	54,530	(2,986)	(1,792)	49,752
Non-cash changes				
– interest charged	—	2,945	—	2,945
– exchange differences	—	4,599	56	4,655
At 31 December 2017	54,530	88,321	—	142,851

38. MAJOR NON-CASH TRANSACTION

On 31 March 2017, the Group completed the acquisition of 50% equity interest in Pacific Fertility Institutes, which was satisfied by allotment and issue of 650,000,000 ordinary shares of the Company. The fair value of the consideration shares of HK$143,000,000 was determined with reference to the quoted market closing price of HK$0.22 of the Company's shares on the date of completion.

39. PLEDGE OF ASSETS

At 31 December 2017, the Group have restricted bank deposit amounting to approximately HK$Nil (2016: pledged bank deposits with carrying amounts of approximately HK$755,000).

40. RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions during the reporting period:

Key management personnel remuneration

Remuneration for key management personnel including amounts paid to the Company's Directors and all of the highest paid employees as disclosed in note 15, is as follows:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**8,034**	6,656
Equity-settled share-based payment expenses	**—**	—
Post-employment benefits	**—**	—
	8,034	6,656

Total remuneration is included in "staff costs".

41. LEASE COMMITMENTS

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**27,254**	4,279
After 1 year but within 5 years	**112,575**	1,903
Over 5 years	**309,084**	—
	448,913	6,182

The Group is a lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to twenty years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

42. CAPITAL COMMITMENTS

At 31 December 2017, the Group had the following capital commitments in respect of the purchase of property, plant and equipment not provided for in the consolidated financial statements:

	2017	2016
	HK$'000	HK$'000
Contracted for:	**19,847**	—

43. EVENTS AFTER THE REPORTING PERIOD

On 16 January 2018, the Company completion of subscription of convertible bonds due 2020 in the aggregate principal amount of US$7,000,000 (approximately equivalent to HK$54,600,000).

44. PARTICULARS OF SUBSIDIARIES

(a) Particulars of the Company's subsidiaries of the Group as at 31 December 2017 were as follows:

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Golden Leo Development Limited 金獅發展有限公司	Hong Kong	1 ordinary share of HK$1	100%	—	Inactive
Elite Mix Limited 合俊有限公司	British Virgin Islands	1 ordinary share of USD1 each	100%	—	Investment holding
Hugh Smart Investments Limited 鉅俊投資有限公司	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding
Shenzhen CETH Environmental Technology Co. Ltd.# 深圳中環科環保科技有限公司*	PRC**	RMB10,000,000	—	100%	Development of environmental protection related project
Shenzhen Huaxin Environmental Technology Engineering Co., Ltd.# ("**Shenzhen Huaxin Environmental**") 深圳華信環境技術工程有限公司	PRC**	RMB10,824,000	—	51%	Development of environmental protection related project
Hunan Chezhou CETH Environmental Technology Co., Ltd.# 湖南郴州中環科環保科技發展有限公司	PRC**	RMB10,000,000	—	51%	Development of environmental protection related project
Vast Investment Limited 冠浩有限公司	British Virgin Islands	1 ordinary share of USD1 each	100%	—	Investment holding

44. PARTICULARS OF SUBSIDIARIES (Continued)

(a) Particulars of the Company's subsidiaries of the Group as at 31 December 2017 were as follows: (Continued)

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Great Champion Holdings Limited 大盛集團有限公司	Hong Kong	10,000,000 ordinary shares of USD1 each	—	100%	Inactive
Winsum Investment Limited	British Virgin Islands	1 ordinary share of USD1 each	100%	—	Investment holding
Power Score Limited 力得有限公司	British Virgin Islands	50,000 ordinary shares of USD1 each	—	100%	Investment holding
New Era Technology Development Limited 年代科技發展有限公司	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding
Beijing Jinrui Tongda Technology Company Limited# 北京金瑞通達科技有限公司*	PRC**	HK$5,000,000	—	100%	Investment holding
Beijing Jingrui Kemai Water Purification Technology Company Limited# 北京精瑞科邁淨水技術有限公司*	PRC**	RMB10,000,000	—	100%	Development of water purification technology and wastewater treatment equipment
Hunan Qifan Environmental Technology Co., Ltd.# 湖南啟帆環保科技有限公司	PRC**	RMB5,000,000	—	80%	Development of environmental protection related project
Well Nation Holdings Limited	British Virgin Islands	1 ordinary share of USD1 each	100%	—	Investment holding
Rich Channel International Limited 富啟國際有限公司	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding
Beijing Xinchuang Technology Development Company Limited# 北京興創科技發展有限公司*	PRC**	HK$68,000,000	—	100%	Investment holding
Fanhe (Beijing) Water Investment Co., Ltd.# 凡和(北京)水務投資管理有限公司	PRC**	RMB1,000,000	—	100%	Inactive
Beijing Capital Environment Construction Company Limited	Cayman Islands	10 ordinary shares of HK$1 each	100%	—	Investment holding

44. PARTICULARS OF SUBSIDIARIES (Continued)

(a) Particulars of the Company's subsidiaries of the Group as at 31 December 2017 were as follows: (Continued)

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Beijing Capital Environment Construction (Hong Kong) Company Limited 首創環保建設(香港)有限公司	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding
Beijing Shouqiang Innovative Environmental ProtectionTechnology Co., Ltd# 北京首強創新環保科技有限公司*	PRC**	HK$6,000,000	—	100%	Provision of environmental consultancy services
INNOMED Group Limited 醫諾醫療集團有限公司	British Virgin Islands	1 ordinary share of US$1 each	100%	—	Investment holding
Innomed (HK) Limited 醫諾醫療(香港)有限公司	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding
Innomed (Shenzhen) Limited# 深圳市醫諾醫療技術服務有限公司*	PRC**	RMB 0.00	—	100%	Development of medical information system and health care management consulting
Shenzhen CETH Assets Management Co., Ltd. # 深圳中環科資產管理有限公司*	PRC**	RMB20,000,000	—	100%	Investment holding
Beijing Jianbao Kangying Medical Technology consultancy services Co., Limited# 北京健寶康英醫療科技有限公司	PRC**	RMB 350,000	—	90%	Provision of health consultancy services
Beijing INNOMED Women's and Children's Hospital Co., Limited# 北京醫諾婦兒醫院有限責任公司	PRC**	RMB 360,000	—	90%	Provision of medical services and hospital management
Hainan Yinkai Medical Investment Co., Limited ("**Hainan Yinkai**")# 海南銀開醫療投資有限公司	PRC**	RMB40,000,000	—	52.02%	Development of medical technology
Shenzhen Double Helix Investment Fund (Limited Partnership)# 深圳市雙螺旋投資基金(有限合夥)	PRC	RMB0.00	—	90%	Inactive

44. PARTICULARS OF SUBSIDIARIES (Continued)

(a) Particulars of the Company's subsidiaries of the Group as at 31 December 2017 were as follows: (Continued)

Name of subsidiary	Place of incorporation/ business	Particulars of issued share capital/paid up registered capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Beijing INNOMED North Medical Technology Service Co., Limited# 北京醫諾北方醫療技術服務有限公司*	PRC**	RMB1,180,000	—	100%	Provision of health consultancy services
Pacific Fertility Institutes (Singapore) Pte. Ltd	Singapore	10,000 ordinary shares of SGD 1	—	100%	Provision of health consultancy services
Pacific Fertility Institutes Inc.	Cayman Islands	50,000 ordinary shares of US$1 each	—	50%	Investment holding
Pacific Fertility Institutes (HK) Holding Company Limited 太平洋生殖醫學中心(香港)控股有限公司	Hong Kong	10,000 ordinary shares of HK$10,000	—	50%	Investment holding
Pacific Fertility Institutes Inc.	Saipan	100,000 ordinary shares of US$1 each of US$1 paid	—	40%	Provision of health consultancy services

* a wholly foreign owned enterprise

** a limited liability enterprise

\# The company name in English is not the official name but a translation for reference only.

44. PARTICULARS OF SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiary that have material non-controlling interests ("NCI")

The following table shows information of the subsidiary that has NCI material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Pacific Fertility Institutes		Hainan Yinkai		Shenzhen Huaxin Environmental	
Principal place of business/country of incorporation	Cayman		PRC		PRC	
	2017	2016	2017	2016	2017	2016
% of ownership interest/voting rights held by NCI	50%	50%	47.98%	47.98%	49%	49%
As 31 December:						
Non-current assets	78,768	—	9	—	343	580
Current assets	19,099	—	47,697	—	7,386	24,561
Current liabilities	(9,387)	—	(315)	—	(38,659)	(36,935)
Non-current liabilities	(12,719)	—	—	—	—	—
Net assets/(liabilities)	75,761	—	47,391	—	(30,930)	(11,794)
Carrying amount of NCI	37,881	—	22,738	—	(15,156)	(5,779)
Year ended 31 December:						
Revenue	50,934	—	—	—	444	9,298
Profit/(loss) for the year	22,632	—	(633)	—	(17,519)	(6,653)
Profit/(loss) allocated to NCI	11,316	—	(304)	—	(8,584)	(3,260)
Total comprehensive income/(expenses)	22,366	—	1,751	—	(19,136)	(7,302)
Total comprehensive income/(expenses) allocated to NCI	11,183	—	840	—	(9,377)	(3,578)
Dividend paid to NCI	15,642	—	—	—	—	—
Net cash generated from operating activities	29,252	—	16	—	1,102	(5,413)
Net cash (used in)/ generated from investing activities	(70)	—	—	—	348	—
Net cash (used in)/ generated from financing activities	(31,281)	—	2,384	—	92	(6,160)
Net (decrease)/increase in cash and cash equivalents	(2,099)	—	2,400	—	1,542	(11,573)

45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are approved and authorised for issue by the Board of Directors on 29 March 2018.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2017

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Continuing operations					
Revenue	**79,166**	34,689	61,999	89,319	56,311
Loss from operations	**(45,516)**	(53,004)	(61,094)	(45,484)	(52,099)
Finance costs	**(9,081)**	(9,537)	(9,104)	(8,588)	(13,866)
Loss before tax	**(54,597)**	(62,541)	(70,198)	(54,072)	(65,965)
Income tax credit/(expenses)	**(4,464)**	2,454	(687)	92	996
Loss for the year/period from continuing operations	**(59,061)**	(60,087)	(70,885)	(53,980)	(64,969)
Discontinued operations					
(Loss)/profit for the year/period from discontinued operations	**—**	—	(3,969)	(22,486)	—
Loss for the year/period	**(59,061)**	(60,087)	(74,854)	(76,466)	(64,969)
Attributable to:					
– Owners of the Company	**(60,666)**	(55,239)	(74,117)	(75,307)	(64,568)
– Non-controlling interests	**(1,605)**	(4,848)	(737)	(1,159)	(401)
Loss for the year/period	**(59,061)**	(60,087)	(74,854)	(76,466)	(64,969)

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets	**204,177**	7,411	34,902	39,689	278,141
Net current assets/(liabilities)	**(38,014)**	21,064	(48,493)	78,230	(14,858)
Non-current liabilities	**(35,780)**	(23,407)	(22,063)	(72,575)	(138,334)
	130,383	5,068	(35,654)	45,344	124,949
Share capital	**91,259**	75,009	62,508	62,508	62,508
Reserves	**(5,807)**	(62,971)	(96,352)	(16,121)	62,638
Total equity attributable to owners of the Company	**85,452**	12,038	(33,844)	46,387	125,146
Non-controlling interests	**44,931**	(6,970)	(1,810)	(1,043)	(197)
Total equity/(capital deficiency)	**130,383**	5,068	(35,654)	45,344	124,949
Loss per share					
Basic	**(HK1.74 cents)**	(HK2.19 cents)	(HK2.96 cents)	(HK3.01 cents)	(HK2.58 cents)
Diluted	**(HK1.74 cents)**	(HK2.19 cents)	(HK2.96 cents)	(HK3.01 cents)	(HK2.58 cents)