中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1129

2017

ANNUAL REPORT

Build A Dream and Share Future Success

*For identification purpose only


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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Deng Jun Jie *(Chairman)*
(Appointed on 21 April 2017)
Mr. Wang De Yin *(Chairman and Chief Executive Officer)*
(Resigned on 21 April 2017)
Mr. Lin Yue Hui *(Chief Executive Officer)*
(Appointed on 21 April 2017)
Mr. Liu Feng
Ms. Deng Xiao Ting
Ms. Chu Yin Yin, Georgiana

Independent Non-Executive Directors

Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian
Ms. Qiu Na

AUDIT COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
Mr. Guo Chao Tian
Ms. Qiu Na

REMUNERATION COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
Mr. Liu Feng
Mr. Guo Chao Tian

NOMINATION COMMITTEE

Mr. Deng Jun Jie *(Chairman)* (Appointed on 21 April 2017)
Mr. Wang De Yin (Resigned on 21 April 2017)
Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian

INVESTMENT COMMITTEE

Mr. Lin Yue Hui *(Chairman)* (Appointed on 21 April 2017)
Mr. Wang De Yin (Resigned on 21 April 2017)
Mr. Liu Feng
Mr. Liu Hui Quan (Resigned on 12 March 2018)
Mr. Huang De Ping (Resigned on 12 March 2018)
Ms. Zeng Yuan Chun (Resigned on 31 March 2018)
Mr. Liu Wei Qing
Mr. Li Han (Appointed on 12 March 2018)
Mr. Tang Po Shing (Appointed on 12 March 2018)
Mr. Zhong Wei Guang (Appointed on 12 March 2018)

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

AUTHORISED REPRESENTATIVES

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

Agricultural Bank of China
Bank of China
Industrial and Commercial Bank of China Limited

Hong Kong

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Chiyu Banking Corporation Limited
The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited

LEGAL ADVISERS AS TO HONG KONG LAWS

Reed Smith Richards Butler
Johnny K.K. Leung & Co.

LEGAL ADVISER AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon Capital Limited

AUDITORS

Crowe Horwath (HK) CPA Limited

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

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STOCK

1129

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2017	2016	Change
	HK$'000	*HK$'000*	*%*
Financial Results			
Revenue	**701,524**	550,646	27.40%
Gross profit	**268,839**	223,982	20.03%
Profit for the year	**10,902**	84,902	(87.16%)
(Loss)/profit attributable to owners of the Company	**(49,111)**	31,263	(257.09%)
(Loss)/earnings per share (HK cents) – Basic and diluted	**(3.08)**	1.96	(257.14%)
EBITDA *(Note)*	**197,745**	223,978	(11.71%)

	2017	2016	Change
	HK$'000	*HK$'000*	*%*
Financial Position			
Total assets	**3,127,553**	2,752,832	13.61%
Total liabilities	**1,307,917**	1,114,625	17.34%
Current assets	**1,219,728**	1,205,620	1.17%
Current liabilities	**851,486**	860,393	(1.04%)
Current ratio	**1.43 times**	1.40 times	2.14%
Cash and cash equivalents	**297,883**	459,179	(35.13%)
Gearing ratio	**41.82%**	40.49%	3.28%
Net asset value	**1,819,636**	1,638,207	11.07%
Equity attributable to owners of the Company	**1,305,399**	1,263,852	3.29%
Equity attributable to owners of the Company per share (HK$)	**0.82**	0.79	3.80%

Note: Profit before finance costs, income tax, depreciation and amortization

FIVE YEARS FINANCIAL SUMMARY

	2013 *HK$'000* (restated)	2014 *HK$'000* (restated)	2015 *HK$'000* (restated)	2016 *HK$'000*	**2017** ***HK$'000***
Results					
Revenue	510,959	507,963	528,586	550,646	**701,524**
Finance costs	(15,352)	(21,670)	(8,842)	(24,083)	**(33,780)**
Profit (loss) before taxation	152,657	291,410	(50,658)	124,817	**45,105**
Income tax expense	(46,697)	(61,775)	(19,940)	(39,915)	**(34,203)**
Profit (loss) for the year	105,960	229,635	(70,598)	84,902	**10,902**
Assets and liabilities					
Non-current assets	1,068,871	993,766	1,390,004	1,547,212	**1,907,825**
Current assets	401,639	939,438	1,231,659	1,205,620	**1,219,728**
Total assets	1,470,510	1,933,204	2,621,663	2,752,832	**3,127,553**
Non-current liabilities	211,178	177,762	255,310	254,232	**456,431**
Current liabilities	432,831	485,448	713,794	860,393	**851,486**
Total liabilities	644,009	663,210	969,104	1,114,625	**1,307,917**
Net assets	826,501	1,269,994	1,652,559	1,638,207	**1,819,636**
Equity attributable to owners of the Company	543,674	939,577	1,310,827	1,263,852	**1,305,399**
Non-controlling interests	282,827	330,417	341,732	374,355	**514,237**
Earnings (loss) per share					
Basic	5.53 cents	16.50 cents	(6.56) cents	1.96 cents	**(3.08) cents**
Diluted	5.53 cents	14.11 cents	(6.56) cents	1.96 cents	**(3.08) cents**

CHAIRMAN STATEMENT

2017 was a year for the Group to grow fast and deep strengthen corporate management. The construction of ecological civilization was placed an unprecedented emphasis on at the 19th CPC National Congress recently held in China, where the fundamental national policy of protecting the environment and the significant objective of improving environmental quality were reiterated and the strategic thought of "lucid waters and lush mountains are invaluable assets" was further clarified. Benefiting from the business opportunities presented by the successively promulgated national favourable policies to the environmental protection industry, the industry is obviously on the rise. We shall proactively cope with this situation and strive for a better prospect.

MARKET REVIEW

The reform of the urban water supply industry was gradually deepening with the increasing deregulation of the water service market. In the relevant "Guiding Opinions on the Market-oriented Reform of Urban Public Utilities" published in 2002 and the "Measures Governing the Franchising of Municipal Public Utilities" published in 2004 by the Ministry of Construction respectively, the criteria for commissioning the franchising of municipal public facilities were specified so that substantial progress was made in the reform of the urban water supply industry. At present, some Chinese domestic water supply companies are reforming and exploring the property ownership regime in various ways, resulting in various patterns of reform being carried out in the urban water supply industry. In the mean time, China's urban water supply industry has successfully gone through the construction period into a maturity stage primarily dominated by the service industry. As China is introducing various water-saving initiatives, water consumption per unit of GDP and water consumption per capita will be gradually reducing. However, given the increasing population, deepening urbanization and growing industrial production, there continues to be stable growth in the overall demand in the urban water supply industry.

The environmental protection industry, a major strategic emerging industry under the "13th Five-year Plan", remained to be the trend of development which received strong policy support. This industry played a more important role in the supply-side reform programme particularly under the environment where the economy was facing pressure from transformation and there was an urgent need to renovate the ecological environment. China has been placing increasing emphasis on environmental protection. Biogas power generation will help reduce greenhouse gas emissions, which is conducive to mitigating the greenhouse effect and reducing a large amount of organic waste. It is a typical resource recycling project. For these reasons, it has good economic and environmental benefits. Since its start-up, China's biogas power generation market has maintained a stable growth rate. According to the National Bureau of Statistics, the size of China's biogas power generation market has grown by leaps and bounds from 2011 to 2017. In 2011, the market size was merely about RMB789 million, while in 2013, it exceeded RMB1.0 billion, representing a growth rate of 19.32%, the highest one ever recorded during the recent years. Since 2014, the state has successively introduced a number of biogas power generation development plans and subsidy policies, which has driven the expansion of industry players. As a result, the market size has also achieved rapid growth. In 2014, the size of the market segment reached nearly RMB1.23 billion, representing a growth rate of around 16%. The size of the market segment increased to RMB1.812 billion in 2017. Overall, the biogas power generation market experienced a CAGR of 14.9% from 2011 to 2017. This suggests that biogas power generation holds enormous growth potential and a broad market prospect.

CHAIRMAN STATEMENT

BUSINESS REVIEW

1. The water supply segment continued to attain steady growth in profits

The Group's urban piped water supply and sewage treatment companies continued as a going concern, and the profits of these companies increased steadily. While improving the water quality processing technology and delivering quality services, the Group grew in a flexible way and operated smoothly. Among these companies, Yingtan Water Supply Group Co., Ltd ("**Yingtan Water**") performed satisfactorily. While delivering stable performance in principle businesses, it applied smart meters each and every where, recorded the lowest leakage rate in the province and saw continued growth in profit. In addition, it established tertiary industry operation centers in Nanchang and vigorously promoted the development of tertiary industries, laying a solid foundation for the Company's external development and talent cultivation. Yichun Water Industry Co., Ltd ("**Yichun Water**") expanded the water service market aggressively. It recorded a year-on-year growth in profit, with the profit ranking second. As approved by the government, the water tariff increased from RMB1.04 to RMB1.4 for household usage, representing an increment of 34.6%, being the highest upwards water tariff adjustment over the past decade. Other water service companies were operating in order and pursuing vigorously for development opportunities.

2. Biogas power generation underwent rapid project growth and successfully tapped into overseas markets

The Group's New China Water companies had acquired 30 landfill gas utilization projects and signed 4 agreements for acquisition and operation, with an aggregate power generation designed capacity of 168MW, reflecting the rapid investment growth. In 2017, the Group successfully signed for the first overseas project in Jakarta, Indonesia, the installed capacity of which reached 16 MW. At present, there are 21 projects put into operation, with an actual installed generating capacity of 91MW; and 13 projects under construction, with an installed generating capacity under construction of 77MW.

To grow the solid waste segment faster and better, we devoted more efforts to intensifying reform and regulating management, optimized strategic planning and improved management rules and regulations for building a solid growth foundation.

1. Living up to benchmarking enterprises, we achieved the development advantages by combining regional operations and management with business management backed by the delicacy management of projects.

    i. We reinforced and improved the target management system of the management team, staff performance and remuneration management system, production performance management system and production safety management system; offered incentives; exercised stringent control over costs; and kept increasing efficiency in the management.

    ii. We stepped up the building of a technical team and formed an internal expert group to lay a solid foundation for the growing business. We formed a team of experts to conduct professional training in project construction, operation and maintenance of biogas power generating plants and biogas collection technology, with an aim to enhance day-to-day operation rules and safety responsibility management for technical staff at all levels.

    iii. Having built up experience and improved learning for years during the process of project investment, we further improved the project investment process and assessed projects in a scientific way so as to make decisions safely.

3. **The glass recycling business operated smoothly with an enormous space to expand**

After we worked hard for more than three years, the operation of the Hong Kong Glass Project was on track, with some progress made in solid waste collection and disposal in Hong Kong. At present, we have factory buildings with area of more than 4,000 square metres. The project is the first qualified glass collection and processing centre under the collection project subsidized by the Hong Kong government. There is a "Happy Glass Garden" in the factory building, serving as an environmental education base and acting as a platform for the primary and secondary school students and volunteer teams to learn and promote environmental protection. At the beginning of the project, we worked with the Nano and Advanced Materials Institute ("**NAMI**") in Hong Kong to develop anti-bacterial nano glass tiles for use at homes and shopping centres, which attracted much attention and applause from the industry. We also expanded the glass fragment export business, making us the first company in Hong Kong to deal in exported separating glass fragments.

4. **An enterprise training base was set up for the cultivation of high-level management team**

We have set up a training base in Shenzhen to further improve the quality and various professional skills of employees, implement the talent strategy, and create a high-level and high-quality management team, so as to bring the rapid corporate development and talent demand in a harmonious way, and to build the talent training base into a strong support backing the talent demand of subsidiaries.

5. **Focused on corporate propaganda for comprehensively enhancing the corporate public image.**

We participated in the environmental exhibitions and forums in Hong Kong, where we were interviewed and covered by a number of well-known media. We also received a number of leading-industry awards and honours at home, in recognition of the efforts we have made and as an ongoing encouragement to us to make another achievement in environmental protection.

PROSPECTS AND FUTURE PLANS

2018 will be a year of persistent development for the Group because the Group has the new energy and photovoltaic power generation segments in addition to the urban water supply and sewage treatment segments, solid waste segment and real estate development segment. The abundant internal resources and capital platform will provide a stronger impetus for the rapid development of the Group.

CHAIRMAN STATEMENT

I. Open up the conventional water service segment aggressively and continue to develop quality water projects

The urban water supply business has been the Group's principal business over the years. With this business, water quality control is kept stable and the safety of urban water supply is effectively assured. Our commitment is to provide quality services for urban residents. Water treatment will reach a pinnacle during the period of the "13th Five-year Plan". With accelerating urbanization process and increasing year-by-year urban water consumption in China, there will be an enormous market demand for water supply and sewage treatment in China, giving the water industry an increasingly prominent position. Sales revenue from the water production and supply sectors is estimated at more than RMB300 billion by 2021. Moreover, the "Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment" (Guofa.2010. No. 13) specified that "the private sector shall be encouraged to invest more capital in the reorganization and restructuring of municipal public enterprises. Qualified municipal utilities projects may be operated with a market-oriented business approach by transferring the property rights or the operating rights to the private sector", "to further deepen the system reform of municipal public utilities; to bring in a market competition mechanism aggressively; and to promote a tender system vigorously for investing in and operating municipal public utilities; and to establish a sound franchise system for municipal public utilities". For these reasons, the key to the further development of the water service sector is the availability of specialized and socialized capital resources. Between 2002 and 2009, the average annual growth rate of the prices of tap water for residential purposes in 36 Chinese key cities was 4.69%, and the average annual growth rate of sewage treatment fees was 11.9%. The experience of some overseas successful urban water suppliers suggests that the household water fees should be well-matched with electricity bills, and that the price-demand curve of residents' water consumption should strike a balance if water expenses account for about 4% of personal income. However, there is a wide gap between the current water and electricity expenses in Chinese urban households (electricity expenses are several times higher than water expenses), and water expenses account for only 1.2% of personal income. In the "Study on the Water Shortage Problem in Urban and Rural Areas", the Ministry of Construction pointed out that in order to encourage residents to conserve water, it was appropriate to set the water-cost-to-income ratio at 2.5%-3%. Hence, there is a larger space for water rates to rise. Whether in terms of the scarcity of water resources in China, or the demand from water service companies to make a reasonable profit so as to improve the quality of services, or the comparison with international water tariff standards, there is still a larger space for the current water rates to rise in China. For us, this is big, good news to grow the water service segment.

We will expand the water service segment aggressively, keep improving the management mechanism, seek progress while maintaining stability and continue to acquire quality water projects. In 2017, the sewage treatment plant BOT project, a cooperation project between the Group and Mingyue Mountain Travel Group, commenced construction. The project will have a planned capacity of 40,000 tonne/day and cover an area of 60 acres, and involve, together with the ancillary pipeline network of the town. The project construction will ensure that quality water resources in Wentang will not be contaminated, will further increase the utilization of water resources to enhance the image of Mingyueshan as a tourist spot, and generate a stable investment return in future. On 12 October 2017, the Group entered into a sewage treatment plant BOT agreement with the Jinxiang County Government for the investment in and operation of the sewage treatment plant in Jinxiang County. The project will have a planned capacity of 30,000 tonne/day and the effluent quality will be of the National First-class A Standard with a 29-year operating period.

CHAIRMAN STATEMENT

II. As the development of solid waste segment enters the sixth year, a pattern of mass production has been seen with a promising future

The environmental problem in China is similar to that in Western industrial developed countries in the 1970s. The extensive economic growth model characterized by high levels of emission, energy consumption and pollution has created a tremendous pressure on the resources and the environment. To transform this model into a resource-saving and environment-friendly economic growth model has become the only way for China to maintain its rapid economic growth in the future. For this reason, the Chinese government is stepping up financial commitment to the environmental protection industry. Following the promulgation of the Air Pollution Prevention and Control Action Plan, Water Pollution Prevention and Control Action Plan as well as Soil Pollution Prevention and Control Action Plan, financial commitment to environmental protection is expected to rise to around RMB2 trillion annually during the period of the "13th Five-year Plan". As the impact of solid waste on the environment is emerging progressively, the solid waste treatment industry in China will enter a rapid growth period following the sewage and waste gas treatment industries, with an average annual growth rate expected to exceed 30% to usher in a golden period. We, as a domestic environmental company in China, will also have an enormous space for development in the future. The Group has been engaged in the planning and construction of various pilot projects such as "the landfill gas project using agricultural and forestry residues in pyrolysis gasification power cogeneration for the treatment of low-grade waste combined with coal in Chenzhou, Hunan", "the landfill gas project using agricultural and forestry residues in pyrolysis gasification power cogeneration for the treatment of urban wood junk combined with coal in Jiaozishan, Nanjing" and "the Tangyuan biological gasification power generation project using carbonised rice husk in Xinghua, Jiangsu". We will vigorously push for the development of the new energy segment in the next three years. Upon completion of the existing biogas power generation and biogas purification projects, we will develop biomass power generation projects, pyrolysis gasification power generation projects and power generation projects using urban solid waste (garden, agricultural, forestry and furniture wood residues, etc.) from dumpsites to reduce the amount of waste truly for reducing carbon emissions and increasing annual revenue. It is initially expected that our total installed capacity will exceed 200 megawatts in the next three years. In the next decade, the demonstration effect of these projects will expand a huge market space for us in the field of household garbage disposal, agricultural and forestry residue disposal and pyrolysis gasification.

CHAIRMAN STATEMENT

III. New energy photovoltaic power generation has a big potential for growth in domestic market, and we will promote the scale development of the segment

Distributed power plants have features of higher land intensiveness and higher resource utilization. Their development and construction do not require additional land occupation, and special design and development are allowed according to different water and roof space. Compared to developed countries, distributed photovoltaic power plants still have huge room for future growth in China. The rapid development of photovoltaic technology will also greatly reduce manufacturing costs and improve power generation efficiency. According to the "Guideline on Emerging Sectors of Strategic Importance during the 13th Five-year Plan Period" (《"十三五"國家戰略性新興產業發展規劃》) and the "13th Five-year Plan for Power Development" (《電力發展"十三五"規劃》), by 2020, the installed capacity of distributed photovoltaic power plants will exceed 60 GW, which will be 10 times of the cumulative installed capacity as at the end of 2015, representing a CAGR of nearly 60%; and the proportion of photovoltaic power generation in the total domestic power supply will also reach 30%. Benefiting from the national policy support for distributed photovoltaic power generation, it is expected that during the "13th Five-year Plan" period, the distributed photovoltaic power generation industry will usher in a period of rapid development and become a key development direction for the development of photovoltaic power plants in China. We have in-depth understanding and planning for the distributed photovoltaic power generation market. Given sufficient project resources and human resource reserves, our total installed capacity in 2018 is estimated to reach 100 MW.

IV. Invest in a flexible way and expand more real estate development projects

This year is an important year for the development of our real estate segment. We plan to complete the civil engineering project in 2018 for the Honghu Blue Valley Property, which is expected to be delivered in June 2019. The Guanghua Wisdom Square Project in Nanjing commenced construction works at the end of April and is expected to be capped in March 2019 and delivered for use in December 2019. Yet, in addition to the above projects, in 2018, the real estate business division is also going to accomplish the land reservation and land tendering, auction or listing procedures for the "Headquarter Base of China Water Industry Group" and the second phase of the Honghu Blue Valley Property; and strive to have the "Hong Kong Technology Cooperation Incubator" residing within the Honghu Blue Valley Property.

It is mentioned in the report on the work of the Chinese government released on 5 March 2018 that the development plan for the Guangdong-Hong Kong-Macau Greater Bay Area will be introduced this year to comprehensively promote the mutually beneficial cooperation between Mainland China and Hong Kong and Macau. The initiative was presented in the regional strategy section together with the "Beijing-Tianjin-Hebei integration" and the "Yangtze River Economic Belt" initiatives. Earlier, a spokesman for the first session of the 13th CPPCC National Committee stated that the "Outline of the Plan for the Development of the Guangdong-Hong Kong-Macau Greater Bay Area" has been programmed to be submitted for approval, and will be officially announced upon approval. The Guangdong-Hong Kong-Macau Greater Bay Area theme, in combination with the multi-policy support brought by the "One Belt, One Road" initiative, the Guangdong Free Trade Zone, and the reform of state-owned enterprises in Guangdong Province, will continue to catalyze great bay area thematic investment opportunities. We will, leveraging the regional advantages of the Guangdong-Hong Kong-Macau Greater Bay Area, expand for new territory to achieve accomplishment of one or two projects within the Guangdong-Hong Kong-Macau Greater Bay Area.

CHAIRMAN STATEMENT

V. Actively explore the international market and create more business opportunities

We will aggressively expand the urban solid waste business in Southeast Asian countries and seize the strategic opportunities arising from China's "One Belt, One Road" initiative. The garbage problem is getting relatively serious in Southeast Asian countries with the rapidly growing economy and population in these countries. More than 50% of garbage are stacked at open areas, most of which are disposed without any treatment. As the international community is working hard to promote sustainability and the "3R" concept, developing countries in Southeast Asia have begun to realize the importance of resource recycling, but their solid waste industries are mostly in their infancies or initial stages. They have an urgent need to work together with key enterprises run by conglomerates with relevant management experience and technical equipment on project development. This has offered us a good business opportunity.

After the idea of "building a beautiful China" was proposed at the 18th Third Plenary Session, the importance of the environmental protection industry has become increasingly prominent. As the Chinese government is introducing more preferential policies for the urban water supply, sewage, solid waste and new energy sectors, a favourable situation has almost been created, where the Chinese government is stepping up supervision as well as improving policies and regulations, while investment and business development are growing. We will seize this rare opportunity firmly to further enhance and expand our own experiences and advantages in the area of operations management and expertise, go abroad following the "One Belt, One Road" initiative of the state, intensify the global business strategy, focus on acquisition and merge cases at home and abroad, extend our experience and expertise to the overseas markets, strive to grasp and create more business opportunities, and enhance efficiency in the management.

VI. To ensure the sustainable development of the Group and fulfil the capital demands during the development, the Group took the initiative to expand its financing channels and enhanced its funding capability including but not limited to issue of new bonds, issue of new shares, loans financing with various domestic and international commercial banks so as to make well preparation for the future development of our projects. The Group managed to maintain a healthy financial condition with a reasonable gearing ratio.

Lastly, I would like to take this opportunity to express my heartfelt gratitude, on behalf of the Board, to general investors for offering their tremendous support to the Group over the past one year, as well as to the management and all the staff for working hard and striving for success for the Group. We will remain committed to maintaining the Group's long-term growth and stable performance, and look forward to sharing the Group's achievements with you in the next challenging year.

Deng Jun Jie
Chairman
Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue generated from operations increased by 27.40% from HK$550.65 million for the year ended 31 December 2016 (the "**FY2016**") to HK$701.52 million for the year ended 31 December 2017 (the "**FY2017**"). The increase was mainly due to more renewable energy projects commenced operation during the year. Loss attributable to owners of the Company for FY2017 amounted to HK$49.11 million which represented a year-on-year decrease of 257.09% when compared with profit attributable to owners of the Company of HK$31.26 million for FY2016. Basic loss per share from operations for the FY2017 was at HK3.08 cents when compared with basic earnings per share of HK1.96 cents recorded for the FY2016.

Net profit for the year

Net profit from operations for the FY2017 amounted to HK$10.90 million (FY2016: HK$84.90 million), representing a decrease of 87.16% as compared to that of FY2016. Despite the Group recorded a gross profit growth and an increase in other operating income, the Group still recorded the decrease in net profit in FY2017 which was principally attributable to: (i) a realized loss on disposal of investment fund and listed equity securities; (ii) fair value loss on Group's financial assets; and (iii) an increase in administrative expense and finance costs due to the acquisition and establishment new renewable energy companies in PRC.

Revenue and gross profit

For the FY2017, total revenue was HK$701.52 million, an increase of HK$150.87 million, or 27.40% from HK$550.65 million for the FY2016. The increase was primarily attributable to the continued expansion of the renewable generation business in 2017.

For the FY2017, total gross profit was HK$268.84 million, an increase of HK$44.86 million or 20.03% from HK$223.98 million for the FY2016 but the gross profit margin for the FY2017 was a slightly drop of 2.36% in gross profit ratio to 38.32% from 40.68% for the FY2016. The decrease in the gross profit margin was a result of lower profit margin projects awarded in construction services which offset the benefit arising from the expanding renewable energy business operation.

During the year under review, the main revenue and gross profit contributors were Yichun Water and its subsidiaries ("**Yichun Water Group**") and Yingtan Water and its subsidiaries ("**Yingtan Water Group**"), which collectively accounted for 50.53% of the total revenue and 56.26% of the total gross profit.

The summary of total revenue and total gross profit is as follows:

	Revenue				**Gross Profit (G.P)**			
	2017	**%**	2016	%	**2017**	**G.P.**	2016	G.P.
	HK$'M	***to total***	*HK$'M*	*to total*	***HK$'M***	**%**	*HK$'M*	%
Water supply business	**129.17**	**18.41**	112.04	20.35	**49.14**	**38.04**	37.60	33.56
Sewage treatment business	**44.33**	**6.32**	44.42	8.07	**13.64**	**30.77**	16.83	37.89
Construction services business	**290.04**	**41.34**	272.98	49.57	**113.30**	**39.06**	135.21	49.53
Renewable energy business	**237.98**	**33.93**	121.21	22.01	**92.76**	**38.98**	34.34	28.33
Total	**701.52**	**100**	550.65	100	**268.84**	**38.32**	223.98	40.68

MANAGEMENT DISCUSSION AND ANALYSIS

Other operating income and expenses

For the FY2017, other operating income and expenses amounted to HK$97.76 million, (FY2016: HK$76.57 million) rose by HK$21.19 million. The increase was primarily derived from loan interest income, project income of updating landfill gas collection facilities, government subsidy to certain biogas power generation projects, VAT refund and profit from acquisition of 49% equity interest of Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("**Xiang Rui Property**") at Yingtan City, Jiangxi Province, the PRC.

Net loss on financial assets at fair value through profit or loss

Included in net loss on financial assets at fair value through profit or loss ("**FA**") comprised (i) HK$30.22 million for the redemption loss on investment fund ("**Fund A**"); (ii) HK$6.31 million for the fair value loss on listed equity securities; and (iii) HK$4.20 million for the loss on disposal of listed equity securities. For the FY2017, net loss on FA recorded HK$40.73 million, a decrease of HK$63.03 million from the gain of HK$ 22.30 million for the FY2016. The substantial increase in net loss on FA was mostly due to the redemption loss on of the Fund A. During the year, the Company served a redemption notice to the fund manager to redeem the Fund A in whole (the "**Redemption**"). On 11 October 2017, the Company received the confirmation relating to the Redemption for an aggregate redemption value of HK$139.95 million in cash and realized an aggregate loss of HK$30.22 million in relation to the Redemption as compared to the fair value of the Fund A as at 31 December 2016. The change in fair value on securities trading is determined based on the quoted market bid prices available on the Stock Exchange.

Net loss on disposal of available-for-sale investments

For the FY2017, included in loss on disposal of available-for-sale investments ("**AFS**") of HK$12.24 million (FY2016: gain of AFS HK$35.70 million) was the realized loss on disposal of listed equity securities, representing a significant decrease of 134.29% as compared to that of last year.

Selling and distribution expenses and administrative expenses

For the FY2017, selling and distribution expenses together with administrative expenses ("**Total Expenses**") collectively increased by HK$22.92 million to HK$222.66 million (FY2016: HK$199.74 million). The rise was primarily attributable to the acquisition and establishment of new companies in the PRC which caused the increment of staff costs and associated operating expenses. These expenses mainly consisted of staff costs, insurance, rent and rates, legal and professional fee and depreciation. The ratio of Total Expenses for the FY2017 represented 31.74% of revenue, a drop of 4.53% from 36.27% for the FY2016.

Finance costs

Finance costs are mainly interests on fixed coupon bonds. For the FY2017, the finance costs were HK$33.78 million (FY2016: HK$24.08 million), an increase of HK$9.70 million as compared to that of last year. The increase was due to the issue of new fixed coupon bonds in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment loss recognised on goodwill

For the FY2017, the impairment loss on goodwill recorded HK$3.82 million (FY2016: Nil) which was provided for Chenzhou Environment Project. The reason of impairment loss incurred because the commencement date of the planned biomass pyrolysis and gasification for power generation was postponed which caused the recoverable amounts less than the carrying amount of this project.

Impairment loss recognised on Concession Intangible Assets

For the FY2017, the impairment loss on concession intangible asset recorded HK$1.51 million (FY2016: Nil) which was provided for Jining City Haiyuan Water Treatment Company Limited* 濟寧市海源水務有限公司 ("**Jining Haiyuan**"). The reason of impairment loss incurred because the local government of Jining City has increased the standard of quality of sewage treatment. To meet the requirement, Jining Haiyuan consumed additional medicine used in the process of sewage treatment resulting in increasing of operation costs which led the recoverable amounts less than the carrying amount.

Share of results from associates

The Group had three associated companies, including 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("**Jinan Hongquan**"), 30% equity interests in Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**") and 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited ("**Yu Jiang Hui Min**"). For the FY2017, the Group shared the loss of HK$3.96 million (FY2016: loss of HK$1.41 million) which was from the loss of HK$6.67 million from Jinan Hongquan, the gain of HK$3.01 million from Super Sino Group and the loss of HK$0.3 million from Yu Jiang Hui Min.

Income tax

For the FY2017, the income tax dropped by HK$5.72 million to HK$34.20 million (FY2016: HK$39.92 million). The decrease was because (i) certain renewable energy projects are entitled to have tax concessions benefit for the exemption to pay PRC income tax for 3-year full exemption and subsequent 3-year 50% exemption commencing from these respective years in which their first operating incomes were derived; and (ii) reversal of deferred tax. Income tax represents income tax payable by the Group under relevant income tax rules and regulations where the Group operates. Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Income tax consisted mainly of PRC income tax and deferred income tax. Enterprises incorporated in Hong Kong and PRC are subject to income tax rates of 16.5% and 25% respectively for FY2017.

Loss attributable to Owners of the Company

For the FY2017, loss attributable to owners of the Company was HK$49.11 million (FY2016: profit of HK$31.26 million), an decrease of HK$80.37 million primarily due to a net fair value loss on FA and a realized loss on disposal of Fund A and equity securities.

Exposure to Fluctuations in Exchange Rates

Almost all of the Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in RMB but the books are recorded in HK$. For the FY2017, RMB recorded an appreciation against HK$ resulted in a net exchange gain of HK$3.48 million (FY2016: exchange loss of HK$3.60 million). The Group has not adopted any hedging policies. Due to recent fluctuation of RMB exchange rate against HK$, the Group had been monitoring the foreign exchange exposures closely and hedging any significant foreign currency exposure in order to minimise the exchange risk, if necessary.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the FY2017, the Group financed its operations with internally generated cash flows, banking facilities and other borrowings. The Group recorded cash and cash equivalents of HK$297.88 million (FY2016: HK$459.18 million) including cash held at financial institutions of HK$0.35 million (FY2016: HK$0.34 million) and an overdraft held at financial institutions of HK$20.27 million (FY2016: HK$31.06 million). The decrease in cash and bank balance of the Group was mainly due to the payments for the acquisition of subsidiaries and development of properties. With the steady operating cash flows, the Group should have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in HK$ and RMB.

The net current assets for the Group in 2017 were HK$368.24 million (FY2016: HK$345.23 million). The current ratio (current assets over current liabilities) is 1.43 times as at FY2017 (FY2016: 1.40 times).

Net asset value was HK$1,819.64 million (FY2016: HK$1,638.21 million). Net asset value per share was HK$1.14 (FY2016: HK$1.03).

As at FY2017, the Group's consolidated non-current assets increased by HK$360.62 million to HK$1,907.83 million (FY2016: HK$1,547.21 million) mainly attributable to further expansion of renewable energy business in 2017 by acquiring more related projects which made property, plant and equipment, operating concession and other intangible assets to increase.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT PROPERTIES

For the FY2017, the Group held the following investment properties for leasing:

Location	Usage	Approximately gross floor area (square meters)	Lease terms	% of occupancy rate	The Group's interest (%)
Xiabu Water Plant Control Centre					
No. 1 Qilin East Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC ("**Xiabu Centre**")	Commercial	16,781	Long	76.18%	51%
Room C-103, Yihai International Street, 200 meters south of Phoenix Street and Lanting Road, Hedong District, Linyi City, Shandong Province, the PRC ("**Yihai International Building**")	Commercial	151.96	Long	100%	60%
("**Yichun Properties**")					
i No. 1-13, 1/F, 14 Building, No. 150-156, Gulou Road, Yichun City, Jiangxi Province, the PRC	Commercial	175.28	Long	100%	51%
ii No. 542, Mingyue North Road, Yuanzhou District, Yichun City, Jiangxi Province, the PRC	Commercial	556.15	Long	100%	51%

For the FY2017, the carrying value of investment properties recorded HK$46.79 million (FY2016: HK$32.51 million) including HK$42.04 million of the Xiabu Centre, HK$1.50 million of Yihai International Building and HK$3.25 million of Yichun Properties. For the FY2017, the gross rental income from investment properties less direct outgoing recorded HK$1.55 million (FY2016: HK$1.34 million) and recognised fair value gain on investment properties of HK$1.22 million (FY2016: HK$1.61 million).

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER NON-CURRENT ASSETS

During 2015, Yingtan Water entered into agreements with a local government office to transfer all units of the investment property (the "**Resumption Properties**") to the local government for the development of a composite project (the "**New Premises**"), which Yingtan Water received compensation including transfer of certain construction floor areas of the New Premises (the "**Yingtan New Premises**"). For the FY2017, the construction of New Premises are still under construction and is expected to be completed in September 2018. The carrying value of the Yingtan New Premises was HK$20.83 million (FY2016: HK$19.37 million).

INVENTORIES

As at 31 December 2017, inventories of HK$193.76 million (FY2016: HK$184.59 million) mainly comprised of properties held for sale of HK$156.99 million (FY2016: HK$151.64 million) and raw material of HK$36.77 million (FY2016: HK$32.93 million). Properties held for sale represented the construction of new commercial and residential buildings by Xiang Rui Property at Yingtan City, Jiangxi Province, the PRC which is entirely owned by Yingtan Water. The properties namely Yu Jing No.1* (御景壹號) located at No. 8 Xinjiang North Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC has been completed in July 2017 with a total saleable area of 35,370 sq.m., which comprised of 372 residential apartments and 105 retail shops. The pre-sales of the project had commenced since October 2014. For the FY2017, approximately 63% of the residential apartments and retail shops are available for sales. For the FY2017, the income and net gain recognised from the sale of properties were HK$19.45 million and HK$0.87 million respectively (FY2016: income of HK$25.22 million and net loss of HK$0.24 million).

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at 31 December 2017, the fair value of FA and AFS recorded HK$40.58 million (FY2016: HK$232.81 million) and HK$18.60 million (FY2016: HK$90.44 million) respectively. All securities investments of the Group were listed in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

The total market value of the portfolio investments was HK$59.18 million, representing 1.89% of the total assets value of the Group as at FY2017 (FY2016: HK$323.25 million). The following analysis was the Group's investments at the end of reporting period:

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 December 2017	Effective interest held as at 31 December 2017	Initial investment cost *HK$'000*	Market value as at 31 December 2017 *HK$'000*	Realised gain/(loss) for the year ended 31 December 2017 *HK$'000*	Accumulated unrealised holding gain/(loss) on revaluation *HK$'000*	Percentage to total assets value of the Group as at 31 December 2017	Classification	Dividend received/ receivable during the year
Leyou Technologies Holdings Limited	1089	Development of video game	22,795,000	0.74%	46,881	40,575	264	(6,306)	1.30%	FA	–
China Creative Global Holdings Limited	1678	Principally engaged in the design, development, manufacture and sales of home decor products	54,000,000	2.60%	10,178	10,584	(757)	406	0.34%	AFS	–
China Regenerative Medicine International Limited	8158	Research and development of bio-medical and healthcare products, medical techniques; provision of the production and sales of tissue engineering products and its related by-products; sales and distribution of medical products and equipment	39,000,000	0.22%	7,609	6,435	(4,090)	(1,174)	0.21%	AFS	–
HK Life Sciences and Technologies Group Limited	8085	Anti-aging and stem cell technology businesses; trading business; money lending business; and securities investment	8,820,000	0.16%	1,402	882	(3,271)	(520)	0.03%	AFS	–
China Best Group Holding Limited	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities	7,000,000	0.10%	956	700	(6,698)	(256)	0.02%	AFS	–

The above securities investments in aggregate of HK$59.18 million represented 100% of the total market value of the portfolio investments.

For the policy in investment of securities, the management will closely monitor the investment portfolio and capture opportunities arising from securities trading and investments in a prudent manner and balance investment risks. Notwithstanding the overall result of investment in securities for the FY2017 was in a loss position after taken up the impairment loss and/or fair value loss on financial assets investment, the Group believes that following the implementation of the favorable financial policies in Hong Kong, such as the Shanghai-Hong Kong Stock Connect, mutual recognition of funds and the Shenzhen-Hong Kong Stock Connect, the Group is optimistic about the future equity securities markets in Hong Kong.

TRADE AND OTHER RECEIVABLES

As at FY2017, the Group's trade and other receivables were approximately HK$631.98 million (FY2016: HK$286.24 million). These comprised of: (i) trade receivables of HK$106.17 million, (ii) other receivables of HK$377.84 million, (iii) loan receivables of HK$84.48 million and (iv) deposits and prepayments of HK$63.49 million.

For FY2017, trade receivables increased by HK$44.66 million to HK$106.17 million which was in line with the increase of revenue (FY2016: HK$61.51 million). The average turnover period of the trade receivables as at FY2017 were 44 days (FY2016: 34 days). The Group allows a credit period of 0 day to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period.

For FY2017, other receivables increased by HK$282.51 million to HK$377.84 million (FY2016: HK$95.33 million) which mainly included (i) HK$139.95 million for the redemption of Fund A (the "**Redemption**"), (ii) tender deposit of HK$120.07 million for bidding of land and a deposit of HK$55.40 million paid for goods procurement. After several round negotiations with fund manager of Fund A, fund manager had provided the repayment plan to settle the Redemption by four instalments in 2018, HK$68.30 million in March, HK$10 million in April, HK$10 million in May and the remaining balancing in June. Subsequent to the year-end, amounting of HK$68.30 million representing 48.80% of the Redemption received pursuant to the repayment plan. During the year, Yingtan Water Group entered into a co-operation agreement with an independent third party to bid a land in Yingtan City, PRC. Owing to unsuccessful tender bid on land, the co-operation agreement was terminated and the deposit was fully refunded in January 2018. As the ordered goods failed to deliver on time, the supplier refunded all deposit in March 2018.

For FY2017, loans receivables increased by HK$80.93 million to HK$84.48 million (FY2016: HK$3.55 million) represented loans to four unrelated parties which bear fixed interest rate ranging from 10% to 36% annually. Subsequent to the year-end, HK$59.55 million received for the settlement of loans.

For FY2017, deposits and prepayments decreased by HK$62.36 million to HK$63.49 million (FY2016: HK$125.85 million) which mainly represented the prepayment and tender deposits for construction projects.

LIABILITIES AND GEARING

Total liabilities of the Group as at FY2017 were HK$1,307.92 million, an increase of HK$193.29 million from HK$1,114.63 million for FY2016. The increase was mainly attributable to the issue of bonds and, addition loans borrowing to finance the expansion of renewable energy generation business. Total liabilities mainly comprised of the bank and other borrowings of HK$609.38 million (FY2016: HK$483.19 million), trade and other payables of HK$219.80 million (FY2016: HK$256.26 million) and deferred tax liabilities of HK$80.07 million (FY 2016: HK$65.17 million). Except for the following issuance of bonds denominated in HK$, borrowings were mainly denominated in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

Bonds and non-equity financing

1. *The issuance of 2016 bonds*

   On 14 June 2016, the Company, Guarantor and Prosper Talent Limited ("**Bondholder**") entered into a Subscription Agreement and Bond Instrument in respect of the issuance of bonds with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond and Series B Bond (the "**2016 Bonds**"). Series A Bond of HK$200 million and Series B Bond of HK$100 million was issued on 14 June 2016 and on 7 December 2016 respectively. This 2016 Bonds will mature in one year from the date of issuance. The repayment of the 2016 Bonds is guaranteed by a substantial shareholder of the Company. As at FY2017, the outstanding 2016 Series B Bonds amounted to HK$47.21 million and were classified as an other loans (FY2016: HK$285.27 million). Pursuant to the Bond Instrument, the Company has an option to extend 2016 Bonds for another one year from the maturity date (the "**Extended Term**"), subject to the Bondholder's approval. With the approval of Bondholder, Series A Bond of HK$200 million and Series B Bond of HK$100 million was extended for another one year following its original maturity date. Pursuant to the Bond Instrument, during the Extended Term, the interest rate of the Series A Bond and Series B Bond will be charged at 18% per annum. In order to reduce the finance cost, the Company has been actively negotiating with the Bondholder to refinance the 2016 Bonds, including the possibility of the Bondholders to subscribe for any new bonds issued by the Company. Subsequent to the year end, the Company had fully settled the principal amount of 2016 Series B Bonds and the underlying interest.

2. *The issuance of 2017 bonds*

   On 5 September 2017, the Company, Guarantor and Bondholder entered into a Subscription Agreement and Bond Instrument in respect of the issuance of bonds with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond, Series B Bond and Series C Bond (the "**2017 Bonds**"). Series A Bond of HK$100 million and Series B Bond of HK$100 million was issued on 5 September 2017 and on 19 September 2017 respectively (the "**2017 Bonds A and B**"). This 2017 Bonds A and B will mature in one year from the date of issuance. As at FY2017, the outstanding 2017 Bonds A and B amounted to HK$193.71 million and were classified as an other loans (FY2016: Nil). The repayment of the 2017 Bonds is guaranteed by Mr. Deng Jun Jie, an executive Director of the Company ("**Guarantee**"). The Guarantee is conducted on a better commercial terms without secured by any assets of the Group. Series C Bond will automatically expire if the Company not subscribe it on or before 31 March 2018.

3. *Placing of Bond I*

   On 25 October 2017, the Company entered into the Placing Agreement (the "**Placing Agreement I**") with Well Link Securities Limited (the "**Placing Agent I**"), pursuant to which the Placing Agent I on a best effort basis arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond I**"), within 70 days from the date of the Placing Agreement I. On 12 December 2017, the Company has completed the issuance of the Bond I to the placee(s) in an aggregate principal amount of HK$100 million. As at FY2017, the outstanding Bond I amounted HK$96.90 million and was classified as an other loans (2016: Nil).

4. *Placing of Bond II*

   On 4 December 2017, the Company entered into the Placing Agreement (the "**Placing Agreement II**") with Ayers Alliance Securities (HK) Limited, Mayfair & Ayers Financial Group Limited (formerly known as Mayfair Pacific Financial Group Limited) and Sincere Securities Limited (the "**Placing Agents II**"), to use its reasonable endeavors to procure independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million (the "**Bond II**"), from the date of the Placing Agreement II and ending on 31 May 2018. As at FY2017, the outstanding Bond II amounted HK$17.95 million and was classified as an other loans (2016: Nil). As at date of this report, the placing of Bond II has not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

As at FY2017, the aggregate bonds payable including 2016 Series B Bonds, 2017 Bonds A and B, Bond I and Bond II recorded HK$355.77 million which were utilized as general working capital and/or acquisition activities (FY2016: HK$285.27 million).

As at FY2017, the Group's total bank and other borrowings were HK$609.38 million (FY2016: HK$483.19 million). For the maturity profile, refer to the table below:

Debt Analysis

	31 December 2017		31 December 2016	
	HK$'000	***%***	*HK$'000*	*%*
Classified by maturity				
– repayable within one year				
Bank borrowings	**70,833**	**11.62**	48,729	10.08
Other loans	**253,586**	**41.62**	295,265	61.11
	324,419	**53.24**	343,994	71.19
Classified by maturity				
– repayable more than one year				
Bank borrowings	**96,267**	**15.80**	74,245	15.37
Other loans	**188,690**	**30.96**	64,947	13.44
	284,957	**46.76**	139,192	28.81
Total bank and other borrowings	**609,376**	**100**	483,186	100
Classified by type of loans				
Secured	**131,079**	**21.51**	118,509	24.53
Unsecured	**478,297**	**78.49**	364,677	75.47
	609,376	**100**	483,186	100
Classified by type of interest				
Fixed rate	**533,081**	**87.48**	408,141	84.47
Variable-rate	**10,806**	**1.77**	17,863	3.70
Interest free rate	**65,489**	**10.75**	57,182	11.83
	609,376	**100**	483,186	100

The Group's gearing ratio as at FY2017 was 41.82% (FY2016: 40.49%). The ratio was calculated by dividing total liabilities of HK$1,307.92 million over total assets of the Group of HK$3,127.55 million.

MANAGEMENT DISCUSSION AND ANALYSIS

TRADE AND OTHER PAYABLES

As at FY2017, the Group's trade and other payables were approximately HK$219.80 million (FY2016: HK$256.26 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

The Company has not conducted any equity fund raising activities during the year.

During the FY2017, the Group incurred capital expenditures amounting to HK$48 million (FY2016: HK$26 million) for acquisition of concession intangible assets.

BUSINESS REVIEW

The year 2017 is a significant year for China's green development in light of new market conditions, challenges and targets for the environmental protection industry during the 13th Five-Year Plan period. During the year under review, China implemented a number of important plans and policies related to ecological protection, including the 13th Five-Year Plan for Renewable Energy Development, the 13th Five-Year Plan for National Strategic Emerging Industries Development, and the "Belt and Road" Ecological Environment Protection Cooperation Plan, with an objective of accelerating green development and tackling serious environmental problems. Obviously, China has accorded an unprecedented priority to the restoration of the ecological environment. These developments have motivated the domestic environmental protection industry to advance further. Benefited from the support of environmental protection policies from the government and riding on the rapid development of environmental protection industry, the Group has actively been exploring in the areas of environmental friendly renewable energy business through acquisition and continue to invest more funds in water supply and sewage treatment businesses.

Water supply business

There are 5 city water supply projects of the Group (including 2 water supply projects of associated companies) well spread in various provincial cities and regions across China, including Jiangxi, Shandong and Hainan (FY2016: 5 water supply projects). The daily aggregate water supply capacity was approximately 1.99 million tonne (including the capacity of 1.60 million tonne of two associated companies) (FY2016: 1.94 million tonne). The increase in water supply capacity of 50,000 tonne was due to the construction of second phase of water supply plant in Yichun City completed in July 2017. The revenue and gross profit from water supply business amounted to HK$129.17 million and HK$49.14 million respectively, representing 18.41% and 18.28% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 38.04% (FY2016: 33.56%). The increase of 4.48% in gross profit ratio was due to the increase of water supply sale volume and the increase in water tariff. The rates for the water supply ranged from HK$1.43 to HK$3.10 per tonne (2016: from HK$1.34 to HK$2.57 per tonne).

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of water supply projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed daily capacity of water supply (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Yichun Water	51	240,000	Jiangxi	2034
2	Yingtan Water	51	100,000	Jiangxi	2038
3	Linyi Fenghuang	60	50,000	Shandong	2037
4	Jinan Hongquan	35	1,500,000	Shandong	2036
5	Super Sino Group	30	100,000	Hainan	2037
	Total		1,990,000		

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (FY2016: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 170,000 tonne (FY2016: 170,000 tonne) generating a revenue of HK$44.33 million and gross profit of HK$13.64 million, representing 6.32% and 5.07% of the Group's total revenue and total gross profit respectively. The gross profit ratio was 30.77% (FY2016: 37.89%). The decrease in gross profit ratio by 7.12% was due to the operating cost increased for upgrading water quality standard in Jining Haiyuan. Upon completion of Mingyue Mountain Project and Jinxiang Project, the number of sewage treatment plants will increase to 5 projects and the daily aggregate sewage disposal capacity will increase by 50,000 tonne to 220,000 tonne. The construction of Mingyue Mountain Project and Jinxiang Project are expected to be completed in December of 2018 and in March of 2019 respectively. The rates for sewage treatment ranged from HK$0.67 to HK$1.33 per tonne (2016: from HK$0.63 to HK$1.24 per tonne).

Analysis of sewage treatment projects on hand is as follows:

	Project name	Equity interest held by the Company (%)	Designed daily sewage disposal capacity (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Jining Haiyuan	70	30,000	Shandong	2036
2	Gaoming Huaxin	70	20,000	Guangdong	2033
3	Yichun Fangke	54.33	120,000	Jiangxi	2035
	Total		170,000		

MANAGEMENT DISCUSSION AND ANALYSIS

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's major sources of revenue and gross profit contributing HK$290.04 million and HK$113.30 million respectively, representing 41.34% and 42.14% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 39.06% (FY2016: 49.53%). The decrease in gross profit ratio was due to more contract works awarded at lower profit margin in 2017.

Exploitation and sale of renewable energy business

Up to the date of this report, the Group has secured a total of 30 biogas power generation projects (FY2016: 20 projects) and signed 4 agreements for acquisition and operation which are mainly located in various provincial cities across China including Jiangsu, Hunan, Shaanxi, Anhui, Hainan, Jiangxi, Sichun, Zhejiang, Chongqing, Shandong, Hebei, Guangxi and Guangdong. In addition, the Group successfully tapped into a new market, namely Jakarta, Indonesia during the year. For the FY2017, the revenue and gross profit recorded HK$237.98 million and HK$92.76 million respectively. Compared with the FY2016, the revenue and gross profit increased by HK$116.77 million and HK$58.42 million respectively. Such increase was because 20 projects have operation in 2017 (FY2016: 15 projects). The overall gross profit ratio rose by 10.65% to 38.98% (FY2016: 28.33%) due to newly acquired projects have started to generate positive contribution to the Group. The average electricity rate was HK$0.63 per kilowatt-hour and the average CNG rate was HK$2.06 per m^3 (2016: average electricity rate HK$0.67 per kilowatt-hour and average CNG rate HK$1.84 per m^3).

	Revenue				Gross Profit (G.P)			
	2017	**%**	2016	%	**2017**	**G.P**	2016	G.P
	HK$'M	**to total**	*HK$'M*	to total	***HK$'M***	**%**	*HK$'M*	%
Exploitation and sale of renewable energy business								
– Sale of electricity	**194.60**	**81.77**	70.70	58.33	**89.12**	**45.79**	24.90	35.22
– Sale of compressed natural gas	**29.83**	**12.54**	39.42	32.52	**(3.83)**	**n/a**	5.81	14.74
– Service income from collection of landfill gas	**13.55**	**5.69**	11.09	9.15	**7.47**	**55.13**	3.63	32.73
Total	**237.98**	**100**	121.21	100	**92.76**	**38.98**	34.34	28.33

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of renewable energy projects on hand is as follows:

	Project name	Provincial cities in PRC/ Indonesia	Business mode	Equity interest held by Company (%)	Actual/ Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
1	Nanjing Jiaozishan	Jiangsu	Power generation	100	October 2013	June 2025
2	ZhuZhou Biogas	Hunan	Power generation	100	November 2014	October 2023
3	Shenzhen Pingshan	Guangdong	Power generation	100	January 2016	September 2024
4	Baoji	Shaanxi	Power generation	100	May 2016	April 2028
5	Chenzhou Environmental	Hunan	Power generation	100	March 2016	February 2032
6	Huayin Heng Yang	Hunan	Power generation	100	March 2016	October 2029
7	Chongqing Camda	Chongqing	Power generation	100	May 2016	May 2028
8	Hainan Camda	Hainan	Power generation	100	May 2016	*Note 1*
9	Wuzhou Landfill	Guangxi	Power generation	100	September 2016	September 2022
10	Changsha Operation Contract*	Hunan	Power generation	–	May 2014	October 2039
11	Changsha Qiaoyi Landfill Site*	Hunan	CNG	94.6	December 2015	
12	Shenzhen Xiaping Landfill Site	Guangdong	CNG	88	July 2015	April 2030
13	Liuyang Biogas	Hunan	CNG/Power generation	100	CNG: July 2016 Power generation: September 2017	October 2038
14	Qingshan Landfill Site	Guangdong	CNG/Power generation	100	CNG: May 2016 Power generation: October 2016	July 2024
15	He County	Anhui	Operation of landfill	100	December 2018	February 2036
16	Yichun South Suburban	Jiangxi	Power generation	100	July 2017	September 2026
17	Ningbo Qiyao	Zhejiang	Power generation	100	February 2017	June 2028
18	Shandong Qiyao	Shandong	Power generation	100	May 2017	November 2029
19	Datang Huayin	Hunan	Power generation	100	February 2017	March 2024
20	Chengdu City	Sichun	Power generation	49	May 2017	December 2027
21	Xinhua	Hunan	Power generation	100	November 2017	December 2026
22	Zhangjiakou	Hebei	Power generation	70	October 2018	*Note 1*
23	Fengcheng	Jiangxi	Power generation	100	January 2018	March 2032
24	Anqiu City	Shandong	Power generation	100	March 2018	*Note 1*
25	Ankang**	Shaanxi	Power generation	100	May 2019	February 2029
26	Danzhou	Hainan	Power generation	100	April 2019	*Note 1*
27	Changle**	Fujian	Power generation	100	June 2019	*Note 1*
28	Puning**	Guangdong	Operation of landfill and reduction of carbon emission	100	June 2019	*Note 1*
29	Dongyang	Zhejiang	Power generation	90	July 2018	June 2025
30	Haicheng	Liaoning	Power generation	100	March 2019	*Note 1*
31	Anlu	Hubei	Power generation	90	March 2019	February 2030
32	Laizhou	Shandong	Power generation	100	March 2019	February 2028
33	Jiangsu Tangyuan**	Jiangsu	Biomass power generation	51	September 2017	N/A
34	Jakarta TPST	Jakarta	Power generation	94	February 2018	December 2023

MANAGEMENT DISCUSSION AND ANALYSIS

* Projects of Changsha Subcontracting Contract and Changsha Qiaoyi Landfill Site are sharing household waste resources in the same site in Changsha.

** As at date of this report, these projects have not been formed the project company or completed the acquisition.

Note 1: The collection period of landfill gas is until the volume of landfill gas generated from the Landfill reduced to the level of which could not be further utilized.

ACQUISITION AND/OR FORMATION OF RENEWABLE ENERGY PROJECTS DURING THE YEAR UNDER REVIEW

1. Datang Huayin Project

On 23 January 2017, Shenzhen City New China Water Environmental Technology Limited* ("**Shenzhen New China Water**") (深圳市新中水環保科技有限公司), an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreements with Datang Huayin Electric Power Co., Ltd* (大唐華銀電力股份有限公司) and Xiangtan Feihong Industry Company* (湘潭飛宏實業公司) (collectively known as "**Vendors**"), to purchase the entire equity interests of the Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* (大唐華銀湘潭環保發電有限責任公司) ("**Datang Huayin Project**") at an aggregated consideration of approximately RMB0.97 million (equivalent to approximately HK$1.10 million) and the liabilities in aggregate of approximately RMB4.6 million (equivalent to approximately HK$5.20 million) shall be settled by Datang Huayin Project to Vendors if Datang Huayin Project is unable to settle such liabilities, Shenzhen New China Water will be responsible for such payment. Datang Huayin Project principally engages in the harmless treatment of city solid waste in Xiangtan Yuetang landfill. The acquisition was completed in February 2017.

2. Fengcheng Landfill Project

On 17 March 2017, Fengcheng Environmental Hygiene Department* (豐城市環境衛生處) and Shenzhen New China Water have entered into an agreement on the neutralized collection and power generation of landfill gas. The agreement has a term of 15 years. Fengcheng Environmental Hygiene Department will allow Shenzhen New China Water to neutralize and collect all the landfill gas produced at Fengcheng Municipal Solid Waste Landfill ("**Fengcheng Landfill Project**"). In return, Shenzhen New China Water shall be responsible for the collection and utilization of Fengcheng landfill gas, the construction and production, the integrated utilization of collected landfill gas resources and the obtainment of profits. The Fengcheng Landfill Project Company has been established in March 2017.

3. Zhangjiakou Landfill Project

On 1 April 2017, Zhangjiakou City Cleaning and Wastage Disposal Company Limited* (張家口市城潔廢棄物處置有限責任公司) ("**Zhangjiakou Company**") and Shenzhen New China Water have entered into a development and operation agreement on the neutralized collection and power generation of landfill gas, pursuant to which Zhangjiakou Company and Shenzhen New China Water have agreed to establish the project company which will be owned as to 70% by New China Water and as to 30% by Zhangjiakou Company ("**Zhangjiakou Landfill Project**"). The registered capital of project company will be RMB15 million. The collection period of landfill gas is until the volume of landfill gas generated from Zhangjiakou Landfill reduced to the level of which could not be further utilized. The Zhangjiakou Landfill Project Company has been established in May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Anqiu City Landfill Project

On 1 June 2017, Anqiu City Environmental Hygiene Department* (安丘市環境衛生管理處) and New China Water (Nanjing) have entered into an agreement on the neutralized collection and power generation of landfill gas ("**Anqiu City Landfill Project**"). The collection period of landfill gas is until the volume of landfill gas generated from Anqiu Landfill reduced to the level of which could not be further utilized. Anqiu City Environmental Hygiene Department allowed New China Water (Nanjing) to neutralize and collect all the landfill gas produced at Anqiu Landfill. In return, New China Water (Nanjing) shall be responsible for the collection and utilization of Anqiu City landfill gas, the construction and production, the integrated utilization of collected landfill gas resources and the obtainment of profits. The Anqiu City Landfill Project Company has been established in June 2017.

5. Ankang Landfill Project

On 24 October 2017, Shenzhen New China Water and Hunan Xingtuo New Energy Company Limited* (湖南興拓新能源有限公司) (the "**Hunan Xingtuo**") entered into the Acquisition Agreement, pursuant to which the Hunan Xingtuo has agreed to sell and Shenzhen New China Water has agreed to purchase the entire equity interests of the Ankang Xingtuo Environmental Power Generation Company Limited* (安康興拓環保發電有限公司) (the "**Ankang Landfill Project**"), at a consideration of approximately RMB2.85 million (equivalent to approximately HK$3.36 million). The Ankang Landfill Project is located in Shanxi Province, and is currently capable of processing garbage of 450 tonne per day, with an estimate useful life of not less than 10 years. Pursuant to the development plan of the Ankang Landfill Project, investment of RMB15 million (equivalent to approximately HK$17.7 million) will be made to build up the plant in 2018 and a further investment of RMB7 million (equivalent to approximately HK$8.26 million) will be made to enhance the power generating capacity to 3,000 kilowatt in 2019. Electricity generated by the Ankang Landfill Project shall be entitled to an on-grid electricity price RMB0.532 per kilowatt hour. Up to the date of this report, the acquisition has not yet been completed.

6. Danzhou Landfill Project

On 24 October 2017, Shenzhen New China Water and Danzhou Environmental Hygiene Authority, entered into an Operation Agreement, pursuant to which Danzhou Environmental Hygiene Authority granted the Shenzhen New China Water an operational right to operate on the Danzhou landfill (the "**Danzhou Landfill Project**") The Danzhou landfill Project is located in Hainan Province, and is currently capable of processing garbage of 600 tonne per day. The Shenzhen New China Water will invest approximately RMB23 million (equivalent to approximately HK$27.14 million) to the construction of the relevant facilities in relation to operation in the Danzhou Landfill Project, which includes three power generation sets each with power of 1,063 kilowatt and total power generation capacity amounting to 3,000 kilowatt. Electricity generated from the Danzhou Landfill Project shall be entitled to an on-grid electricity price RMB0.637 per kilowatt hour. The Danzhou Landfill Project Company has been established in November 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

7. Changle Landfill Project

On 27 October 2017, Shenzhen New China Water and Changle Xindongyang Environmental Purification Limited* (長樂新東陽環保淨化有限公司) ("**Changle Xindongyang**"), entered into an Operation Agreement I, pursuant to which Changle Xindongyang granted Shenzhen New China Water an operational right to operate on the Changle Landfill ("**Changle Landfill Project**"). The Changle Landfill Project is located in Fujian Province, and is currently capable of processing garbage of 560 tonne per day with an estimate useful life of not less than 10 years. Changle Landfill Project is currently operated and managed by Changle Xindongyang under the build-operate-transfer agreement. Shenzhen New China Water will invest approximately RMB24 million (equivalent to approximately HK$28.32 million) to the construction of the relevant facilities in relation to operation in the Changle Landfill, The total power generation capacity is amounting to 3,000 kilowatt per hour. Electricity generated from the Changle Landfill shall be entitled to an on-grid electricity price RMB0.629 per kilowatt hour. Up to the date of this report, the Changle Landfill Project Company has not yet been established.

8. Puning Landfill Project

On 27 October 2017, Shenzhen New China Water and Puning Municipal Bureau of Environmental Sanitation* (普寧市城鎮環境衛生管理局) ("**Puning Municipal Bureau**") entered into an Operation Agreement II, pursuant to which Puning Municipal Bureau granted Shenzhen New China Water an operational right to operate on the Puning Landfill ("**Puning Landfill Project**"). The Puning landfill Project is located in Guangdong Province, and is currently capable of processing garbage of 700 tonne per day, with an estimate useful life of not less than 8 years. Shenzhen New China Water will invest approximately RMB23 million (equivalent to approximately HK$27.14 million) to the construction of the relevant facilities in relation to operation in the Puning Landfill, which includes three power generation sets each with power of 1,063 kilowatt per hour and total power amounting to 3,000 kilowatt per hour. Electricity generated from the Puning Landfill shall be entitled to an on-grid electricity price RMB0.699 per kilowatt hour. Up to the date of this report, the Puning Landfill Project Company has not yet been established.

9. Jakarta TPST Landfill Project

On 10 November 2017, Victory Strategy Investment Limited ("**Victory Strategy**"), PT. Navigat Organic Energy Indonesia ("**NOEI**") and Zeus Capital Limited ("**Zeus Capital**"), entered into a Subcontract Cooperation Agreement, pursuant to which NOEI and Zeus Capital granted Victory Strategy an operational right to operate on the Jakarta TPST Landfill ("**Jakarta TPST Landfill Project**"). Pursuant to the Subcontract Cooperation Agreement, Victory Strategy, NOEI and Zeus Capital agreed to cooperate on the landfill gas power generation project in Jakarta TPST Landfill for a term up to 4 December 2023 which is the same as the remaining term of NOEI's exclusive right of use under the Solid Waste Treatment Agreement. The Jakarta TPST Landfill is located in Bantar Gebang, Bekasi City, Jakarta, Indonesia and is currently capable of processing garbage of 7,000 tonne per day. NOEI has entered into the Solid Waste Treatment Agreement with the environmental department of Jakarta, Indonesia and has been granted the exclusive right to the landfill gas resources of the Jakarta TPST landfill until 4 December 2023. NOEI has built and operated at the Jakarta TPST landfill gas power plant since 2013. The total power generation set capacity is amounting to 16,000 kilowatt per hour. Electricity generated from the Jakarta TPST landfill shall be entitled to an on-grid electricity price RP820 per kilowatt hour (approximately HK$0.492 per kilowatt hour). Pursuant to the Subcontract Cooperation Agreement, 86.5% of Power Generation Income shall be used, controlled and entitled by the Victory Strategy as subcontract operation service expenses, of which shall first be applied to the daily operation expenses and related taxes arising out of the Operation Project, and the balance shall first be repaid to the Victory Strategy's loan (if any), and the remaining of it shall be paid to the Victory Strategy's subcontract operation service fees. Victory Strategy will invest approximately HK$35 million to the project company for the construction of the relevant facilities in relation to the operation in the Jakarta TPST Landfill. The Project Company namely PT.CWI Energy Indonesia was formed in February 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

10. Dongyang Landfill Project

On 22 November 2017, Shenzhen New China Water and the Grand Energy Group Co., Ltd.* ("**Grand Energy**.") (弘翔能源集團有限公司) entered into the Acquisition Agreement, pursuant to which the Grand Energy has agreed to sell and the Shenzhen New China Water has agreed to purchase 90% equity interests of the Dongyang Grand Energy Co., Ltd.* (東陽弘翔新能源有限公司) ("**Dongyang Landfill Project**"), at a consideration of approximately RMB22.95 million (equivalent to approximately HK$27.56 million). The Dongyang Landfill Project is located in Dongyang city, Zhejiang Province, and is currently capable of processing garbage of 1000 tonne per day, with an estimate useful life of 10 years. The Dongyang Landfill Project has three power generation sets each with power of 1,067 kilowatt and total power generation capacity amounting to 3,000 kilowatt per hour. Upon the completion of acquisition, the total power generation capacity will be enhanced to 5,000 kilowatt per hour. Electricity generated from the Dongyang Landfill Project shall be entitled to an on-grid electricity price RMB0.676 per kilowatt hour. Up to the date of this report, the acquisition was completed in March 2018.

ACQUISITION AND/OR FORMATION OF RENEWABLE ENERGY PROJECTS AFTER THE YEAR UNDER REVIEW

11. Haicheng Landfill Project

On 8 January 2018, Haicheng City Garbage Disposal Center* ("**Haicheng Centre**") (海城市垃圾處理中心), Haicheng Urban and Rural Construction Administration* (海城市城鄉建設管理局) and Shenzhen New China Water have entered into a Harmless Landfill Gas Collection and Combustion Power Generation and Utilization Agreement ("**Haicheng Landfill Project**"). The collection period of landfill gas is until the volume of landfill gas generated from Haicheng Landfill reduced to the level of which could not be further utilized. Pursuant to the Agreement, the net profit generated from carbon emission shall share equally between Haicheng Centre and Shenzhen New China Water. In addition, there is 5% of annual electricity income after deduction of VAT and subsidy payable to Haicheng Centre as a resource fee. Shenzhen New China Water shall form a project company within 3 months upon the agreement to be signed ("**Project Company**"). Haicheng Centre allowed Project Company to neutralize and collect all the landfill gas produced at Haicheng landfill. Project Company shall be responsible for the project construction and collection landfill gas in return of profit from the sale of electricity, CNG and carbon emission. Shenzhen New China Water will invest approximately RMB35 million (equivalent to approximately HK$42.02 million) to the construction of the relevant facilities in relation to operation in the Haicheng Landfill, The total power generation capacity is amounting to 5,000 kilowatt per hour. Electricity generated from the Haicheng Landfill shall be entitled to an on-grid electricity price RMB0.62 per kilowatt hour. The Haicheng Landfill Project Company has been established in March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

12. Anlu City Landfill Project

On 5 February 2018, Anlu Urban and Rural Construction Bureau* ("**Anlu Bureau**") (安陸市城鄉建設局) and Hubei Province Renewable Resources Group Company Ltd.* ("**Hubei Resources**") (湖北省再生資源集團有限公司) have entered into a Deodorization and Biogas Utilization Agreement ("**Anlu City Landfill Project**"). Pursuant to the Agreement, Hubei Resources Co. and Shenzhen New China Water will jointly form a project company of which as to 90% equity interest hold by Shenzhen New China Water and as to 10% equity interest hold by Hubei Resources ("**Anlu Project Company**") The investment for this project is estimated RMB14 million (equivalent to approximately HK$16.81 million). There is 2% of annual electricity income payable to Anlu Bureau as a resource fee. The collection period of landfill gas is 12 years. Anlu Bureau allowed Anlu Project Company to neutralize and collect all the landfill gas produced at Anlu landfill. Anlu Project Company shall be responsible for the project construction and collection landfill gas in return of profit from the sale of electricity and carbon emission. The total power generation capacity is amounting to 2,000 kilowatt per hour. Electricity generated from the Anlu Landfill shall be entitled to an on-grid electricity price RMB0.634 per kilowatt hour. The Anlu City Landfill Project Company has been established in March 2018.

13. Laizhou City Landfill Project

On 5 February 2018, Laizhou City Living Garbage Landfill* (萊州市生活垃圾填埋場) and New China Water (Nanjing) have entered into a Landfill Gas Resource Utilization Agreement ("**Laizhou City Landfill Project**"). The collection period of landfill gas is 10 years. Laizhou City Living Garbage Landfill allowed New China Water (Nanjing) to neutralize and collect all the landfill gas produced at Laizhou landfill. New China Water (Nanjing) shall be responsible for the project construction and collection landfill gas in return of profit from the sale of electricity and carbon emission. New China Water (Nanjing) will invest approximately RMB21 million (equivalent to approximately HK$25.21 million) to the construction of the relevant facilities in relation to operation in the Laizhou Landfill. The total power generation capacity is amounting to 3,000 kilowatt per hour. Electricity generated from the Laizhou Landfill shall be entitled to an on-grid electricity price RMB0.604 per kilowatt hour. The Laizhou City Landfill Project Company has been established in March 2018.

14. Jiangsu Tangyuan Project

On 8 March 2018, Shenzhen New China Water, Jiangsu Tangyuan Biological Power Generation Co., Ltd.* ("**Jiangsu Tangyuan**") (江蘇唐源生物發電有限公司) and Tang Yongcheng ("**Mr. Tang**"), the existing shareholder of Jiangsu Tangyuan entered into a Share Subscription and Capital Injection Agreement ("**Jiangsu Tangyuan Project**"). Upon completion of capital injection of RMB10.40 million (equivalent to approximately HK$12.49 million) by Shenzhen New China Water, the registered capital of the Jiangsu Tangyuan will increase from RMB10 million to RMB20.4 million (equivalent to approximately HK$24.49 million). Shenzhen New China Water and Mr. Tang will hold 51% and 49% equity interest of Jiangsu Tangyuan respectively. The main business of Jiangsu Tangyuan is biomass power generation, hot water, and sale of carbonized rice husks. Jiangsu Tangyuan has commenced its operation in September 2017. The total power generation capacity is amounting to 5,000 kilowatt per hour and an on-grid electricity price RMB0.76 per kilowatt hour. In addition, the annual production of carbonized rice husks is 6,000 tonne and an estimated selling price RMB2,600 per tonne. As at date of this report, the acquisition has not been completed.

OTHER EVENTS DURING THE YEAR UNDER REVIEW

A. Mingyue Mountain Project

On 17 February 2017, Yichun Mingyue Mountain Spa Scenic Zone Management Committee* 宜春市明月山溫泉風景名勝區管理委會 ("**Mingyue Mountain Spa Management Committee**") and Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd.* 宜春市明月山方科污水處理有限公司 ("**Mingyue Mountain Fangke**") an indirect non-wholly owned subsidiary of the Company have entered into a BOT concession contract for the build, operate and transfer of Yichun Mingyue Mountain Wentang Sewage Treatment Plant ("**Mingyue Mountain Project**") with a term of 26 years. Located in Wentang Town, Yuanzhou District, Yichun, Jiangxi Province, the project is estimated to cost approximately RMB36 million, and has a designed capacity of 20,000 tonne per day in the short term and 30,000-40,000 tonne per day in the long term. In September 2016, Mingyue Mountain Fangke was established for the purpose of Mingyue Mountain Project with registered capital of no less than RMB12 million. This project company is held as to 65% by Yichun Fangke Sewage Treatment Company and as to 35% by Jiangxi Mingyue Mountain Travel Group Company Limited* (江西明月山旅遊集團有限公司). The construction of Mingyue Mountain Project is expected to be completed in December 2018.

B. Yingtan Xiang Rui Property Limited

On 24 July 2017, the Jiangxi Shunda Construction Engineering Limited* ("**Jiangxi Shunda**") (江西省順大建築安裝工程有限公司), an indirect wholly-owned subsidiary of the Company, and the Mr. Zhou Ping Hua* ("**Mr. Zhou**") (周平華) entered into the Acquisition Agreement, pursuant to which the Mr. Zhou have conditionally agreed to sell and the Jiangxi Shunda has conditionally agreed to purchase 49% of the equity interests of the Xiang Rui Property at a consideration of approximately RMB33.3 million (equivalent to approximately HK$36.9 million). As at 31 December 2017, the Xiang Rui Property is held 100% equity interest by Jiangxi Shunda. The acquisition of 49% equity interest was completed in August 2017.

C. Phase II of the Sewage Treatment Plant in Jinxiang – Jinxiang Project

On 12 October 2017, Shenzhen Haisheng Environmental Sci-Tech Company Limited* (深圳市海晟環保科技有限公司) (the "**Hai Sheng Environmental**"), and Jinxiang People's Government of the PRC (the "**Jinxiang County Government**") entered into the BOT Agreement, pursuant to which Hai Sheng Environmental agreed to invest and operate in the phase II of the sewage treatment plant located in Jinxiang County with a total investment of approximately RMB77.7 million (equivalent to approximately HK$93.7 million). Upon completion of the construction of the sewage treatment plant and after carrying out the inspection by and obtaining confirmation from the environmental regulatory department that the water quality is in compliance with the standard as stipulated in the BOT Agreement, Hai Sheng Environmental will be entitled to an operational period of 29 years. The construction of Jinxiang Project is expected to be completed in March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER EVENTS AFTER THE YEAR UNDER REVIEW

D. Honghu Blue Valley Property

On 10 January 2018, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) ("**Huizhou Company**") an indirect wholly-owned subsidiary of the Company, entered into the Construction Agreements with the China Minsheng Drawin Construction Co., Ltd* (中民築友建設有限公司) in relation to the construction of the premises in Huizhou, the PRC at a consideration of RMB120 million (or approximately HK$144.6 million). The property namely Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) located at Huicheng High-tech Industrial Park Center Park, Huizhou City, the PRC ("**Honghu Blue Valley Property**") and is expected to be completed in June 2019. Total gross floor area is 35,725 square meters. Honghu Blue Valley Property comprise of (i) 3 research and development centers; (ii) 17 office buildings for sale (iii) shopping malls and (iv) associated basements.

E. Photovoltaic Power Project

On 23 March 2018, Golden Trend International Capital Limited ("**Golden Trend**"), an indirect wholly-owned subsidiary of the Company, and Mr. Li Han ("**Mr. Li**") entered into a Sales and Purchase Agreement, pursuant to which Mr. Li has agreed to sell and Golden Trend has agreed to purchase the entire equity interest of the Keen Resources Investment Limited ("**Keen Resources**") at a consideration of HK$1.50 million. Keen Resources and its subsidiaries principally engage in photovoltaic power plant construction, operation, maintenance and sales of photovoltaic equipment. The operation of photovoltaic power project will commence at the end of March 2018. As at date of this report, the acquisition has not been completed.

F. Increase in water tariffs

The People's Government of Yichun City, Jiangxi Province, the PRC approved the increase in water tariffs and the implementation of multi-step water tariff system for household usage of Yichun City. The water tariff: (a) for household usage will be increased from RMB1.04 to RMB1.40 per tonne; (b) for non-household usage will be charged at RMB1.96 per tonne; and (c) for special industrial usage will be charged at RMB7.00 per tonne. The effective date of increase in water tariff and the multi-step water tariff system to be adopted by Yichun Water on 1 January 2018.

G. Placing of Bond III

On 11 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement III**") with Prior Securities Limited (the "**Placing Agent III**") pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond III**"), within 365 days from the date of the Placing Agreement III.As at the date of this report, the placing of Bond III has not been completed.

H. Placing of Bond IV

On 18 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement IV**") with Placing Agent III pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of 90 months in aggregate principal amount of up to HK$100 million ("**Bond IV**"), within 365 days from the date of the Placing Agreement IV. As at the date of this report, the placing of Bond IV has not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

LITIGATIONS

(a) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("**Swift Surplus**") (collectively as the "**Lenders**") entered into repayment agreements (the "**Repayment Agreements**") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) ("**Sihui Sewage**") and Top Vision Management Limited ("**Top Vision**") (collectively as the "**Borrowers**") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58.43 million together with interest accrued thereon (the "**Loan Receivables**"). HK$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK$53.43 million (the "**Remaining Loan Receivables**") plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "**Partial Payment of the Remaining Loan Receivables**"). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "**Outstanding Balance**"). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the "**Writ**") to the High Court of Hong Kong Special Administrative Region (the "**High Court**") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the "**Final Judgement**"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgement against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables.

On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited ("**Galaxaco**") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "**Appointment**") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco ("**Creditors**"). On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators ("**Liquidators**"). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision.

MANAGEMENT DISCUSSION AND ANALYSIS

On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("**PRC Judgement**"). On 27 January 2016, the PRC Judgement was announced on the website of The People's Court Announcement for 60 days ("**Announcement Period**"). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period, the PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. In 2016, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings.

On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. ("**Tai Heng**") without payment of purchase consideration of RMB1 million. In light of this, Liquidators have through their solicitors issued a protected writ in the High Count against Tai Heng for recovery of a debt in the sum around HK$3.80 million plus interest and costs. Up to the date of this report, no substantial assets have yet been preserved or recovered. As at 31 December 2017 and 31 December 2016, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

The Board believed that there will be no significant financial impact on the Group as sufficient impairment loss on the Loan Receivables has been provided. It is unlikely that there will be a material adverse financial impact of the Group.

(b) Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("**Guangzhou Hyde**") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("**Yunnan Chaoyue Gas**") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("**Deposit**") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("**Project**"). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

MANAGEMENT DISCUSSION AND ANALYSIS

The Deposit was classified as loan receivable and fully impaired in 2011. The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("**Commission**") for arbitration on 24 February 2012. The Commission accepted the case and started a trial on 5 June 2012. After the trial, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million ("**Principal**") and overdue interests thereon and the relevant arbitration fees. The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award was served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "**Kunming Court**") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application. On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "**Repayment Plan**") to Guangzhou Hyde. On 1 September 2014, Kunming Court had approved the civil enforcement against Yunnan Chaoyue Gas. Yunnan Chaoyue Gas had not performed the repayment obligation according to the Repayment Plan. On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "**Guarantors**") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "**Settlement Agreement**"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

Save as disclosed above, the Company is not aware of any other significant proceedings instituted against the Company.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment and concession intangible assets approximately HK$155.71 million (FY2016: HK$ HK$29.68 million) and no properties under development in relation to development costs of existing projects have been provided (FY2016: Nil).

CONTINGENT LIABILITIES

During the year, the Company issued guarantees to banks in respect of bank borrowings made by two subsidiaries which will expire on 24 May 2018 and 26 September 2019. As at 31 December 2017, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowings of the subsidiaries of HK$14.41 million (FY2016: HK$29.03 million).

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$114.15 million in total as at 31 December 2017 (FY2016: HK$149.27 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$141.28 million (FY2016: HK$33.20); and

(ii) contractual rights to receive revenue generated by certain of our subsidiaries.

KEY RISKS AND UNCERTAINTIES

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

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Foreign exchange rates risk	The Group's assets, borrowings and major transactions are mainly denominated in Renminbi. The Group mainly settles business expenses and receives operating income in mainland China in Renminbi. The Group also remits HK$ to PRC and converts into RMB for acquisition of projects or capital injection to establish investment companies. As the Group's financial statements are presented in HK$. Any appreciation or depreciation of HK$ against RMB will affect the Group's financial position. The Management consider the exposure to foreign exchange risk is minimal and will continue to closely monitor the exposure and take any actions when appropriate.	– Management actively monitor the fluctuation in exchange rate and the Group's exposure to foreign exchange rate risk – Perform sensitivity analysis to quantify the foreign exchange rate risk – Management review regularly what necessary action (such as hedging) should be taken	Unchanged
Equity price risk	The Group is exposed to equity price risk through its investments in listed equity securities and investments in funds. Unfavorable movement in equity price could bring book or actual investment loss to the Group.	– The Board actively review and monitors the investment portfolio and take necessary action to limit the potential loss in an acceptable level – Establish investment policies that clearly set out control limits and approval procedures – Obtain Board approval for investment decisions	Decreased
Liquidity risk	Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets.	– Actively 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.	Unchanged

MANAGEMENT DISCUSSION AND ANALYSIS

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Operational and pricing risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Also, as the Company has only limited ability to change/re-negotiate sewage treatment or water supply fees. If relevant local government authority reject the Company's applications to increase the tariffs to compensate the increase in actual costs, the Company might suffer from loss or decrease in profitability.	– Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. – Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. – Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.	Unchanged
Investment risk	Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments and thus risk assessment is a core aspect of the investment decision process.	– Proper authorisation system has been set up and detailed analysis will be made before approving investments. – Regular updates on the progress of the investments of our Group would be submitted to the Board.	Increased
Manpower and retention risk	Our Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of our Group.	– Provide attractive remuneration package to suitable candidates and personnel – Create positive and work-life balance working environment to avoid staff dissatisfaction – Regularly review staff benefit package and compare to market – Establish clear career path, Backup staff plan and rotate staff regularly, if possible, to reduce impact from staff departure	Increased

MANAGEMENT DISCUSSION AND ANALYSIS

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Legal and regulatory compliance risk	Our businesses success and operations could be impacted by the change of respective government laws and regulation in PRC. Any failure to anticipate the trend of regulatory changes or cope with relevant requirement may result in non-compliance of local laws or regulations, leading to not only financial loss but also reputational damage to the Group.	– Actively monitors and pays close attention to the relevant regulatory and legislative developments of the markets it operates – Consults with regulators of the markets on changes which could impact on our businesses. – Training provided to staff in new staff orientation training. – On-going training to staff to alert them latest regulatory requirements.	Unchanged

1. Key risk mitigations represent measures taken by the management to reduce the risks to acceptable level.

2. Changes represent changes in significancy of the identified risks compared with last year.

EMPLOYEES

As at FY2017, excluding jointly controlled entities and associates, the Group had 1,097 (2016: 1,093) employees, of which 16 (2016: 13) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$162.27 million (2016: HK$153.03 million). The increase was caused by several of our renewable energy projects have commenced their operations in 2017. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

NO MATERIAL CHANGE

Save as disclosed in this report, during the FY2017, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the FY2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Deng Jun Jie ("Mr. Deng"), aged 47, was appointed as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company in April 2017. Mr. Deng currently is the chairman of the board of directors of Honghu Capital Co. Ltd. ("**Honghu Capital**") and a chairman of a number of companies in China. He possesses over 25 years of experiences in industrial sector, involving real estates, environmental protection, culture, aviation and other fields. He specializes in the formulation and development of corporate strategic planning, corporate management and daily operations. Furthermore, with over 15 years of experiences in financial investment and capital operation, Mr. Deng is well versed with the financial markets and capital markets domestically and overseas, in addition to relevant laws and regulations. He has a keen insight and judgment on markets and comparatively strong risk control capability that enable him to seize investment and profit opportunities by taking the lead in several mergers, acquisitions and restructuring projects in the PRC and abroad. Ms. Deng Xiao Ting, is an executive Director of the Company, she is the sister of Mr. Deng. Honghu Capital held 1,535,388,000 shares, representing approximately 21.76% of the issued share capital of the Co-Prosperity Holdings Limited (stock code: 707) which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Mr. Lin Yue Hui ("Mr. Lin"), aged 46, was appointed as an executive Director of the Company in August 2011. He is also the director of certain subsidiaries of the Group. On 21 April 2017, Mr. Lin was appointed as a CEO and was re-designated from a member to a Chairman of Investment Committee of the Company. He is currently a partner of Guanghe Law Firm. Mr. Lin obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies in PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Feng ("Mr. Liu"), aged 55, was appointed as an executive Director of the Company in August 2011. He is a member of each of the Remuneration Committee and the Investment Committee. He is also the director of various subsidiaries of the Group. Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 47, was appointed as an executive Director and Company Secretary of the Company in October 2006 and November 2006 respectively. Ms. Chu is currently an independent non-executive Director of each Bisu Technology Group International Limited (formerly known as Excel Development (Holdings) Limited) (stock code: 1372) and Sino Golf Holdings Limited (stock code: 361) which are listed on the Main Board of the Stock Exchange. Ms. Chu holds a Bachelor's Degree of Business Administration in Accountancy and a Master's Degree of Corporate Governance. She is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Ms. Chu is also a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 16 years' extensive experience by working in an international audit firm and other listed companies.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 43, was appointed as an executive Director of the Company in July 2012. She is the director of various subsidiaries of the Group. Ms. Deng has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 72, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo is a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Guo has once the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd (深圳市建瓴投資發展有限公司). He has been an independent director of China Jingu International Trust Co., Ltd (中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation (中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 53, was appointed as an independent non-executive Director of the Company in October 2012. Mr. Wong is a Chairman of both of the Audit Committee and Remuneration Committee and a member of the Nomination Committee. Mr. Wong is currently an independent non-executive Director of Interactive Entertainment China Cultural Technology Investments Limited (stock code: 8081) and Worldgate Global Logistics Ltd (stock code: 8292), both companies are listed on the GEM of The Stock Exchange of Hong Kong Limited. Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong and a Master's Degree of Corporate Governance from Hong Kong Polytechnic University. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

Ms. Qiu Na ("Ms. Qiu"), aged 39, was appointed as an independent non-executive Director of the Company in September 2016. Ms. Qiu is a member of the Audit Committee. Graduated from the Information Institute of Defense Studies, NDU, PLA* (中國人民解放軍國防信息學院) in 2012, majoring in accountancy. Ms. Qiu is currently a general manager of Huizhou City Huixinfu Property Company Limited. She has extensive experience in human resources management, accounting, corporate administration and property development.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT OF THE GROUP

Mr. Liu Hui Quan ("Mr. Liu"), aged 55, was appointed as a Vice President of the Company in January 2012. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Ms. Zhang Chun Li ("Ms. Zhang"), aged 44, was appointed as the financial controller of the Company in January 2014. Ms Zhang graduated from the Institute of Changsha Traffic with the major in accounting. She is an associate member of the Chinese Institute of Certified Public Accountant. Ms. Zhang has over 10 years of extensive experience in the financial accounting field.

Mr. Xu Huan Xiong ("Mr. Xu"), aged 56, was appointed as a Vice President of the Company in October 2014. Mr. Xu is a leading expert in China's water supply industry and has served in the industry for nearly 20 years, with extensive experience in the construction of water pipe networks, regional water supplies, and the design, construction and management of hydropower stations.

Mr. Huang De Ping ("Mr. Huang"), aged 47, was appointed as the Chief Internal Auditor of the Company in July 2015. Mr. Huang is a qualified PRC certified public accountant and has over ten years of working experience in finance and auditing as well as extensive experience in corporate internal audit and internal control management.

Mr. Zhong Wei Guang ("Mr. Zhong"), aged 50, was appointed as a Vice President of the Company in December 2017. Currently, he serves as a general manager and deputy general manager in Huizhou Junfeng Investments Limited* (惠州俊峰投資有限公司) and Huizhou City Huixinfu Investment Co., Limited* (惠州市惠新福投資有限公司) respectively. Mr. Zhong was a committee member of 9th, 10th and 11th session of the Huizhou City Political Consultative Conference. He has over 20 years of experience in corporate management in PRC.

CORPORATE GOVERNANCE REPORT

OVERVIEW

The board (the "**Board**") of directors believes that good corporate governance enhances credibility and improves shareholders' and other stakeholders' interests. Maintaining a good, solid, and sensible framework of corporate governance is one of the Company's prime tasks.

The Company is committed to achieving high standards of corporate governance. An internal corporate governance policy was adopted by the Board aiming at providing greater transparency, quality of disclosure as well as more effective risk and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board with regular assessments. The Company believes that its commitment to high-standard practices will translate into long-term value and ultimately maximize returns to shareholders. The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

For the year ended 31 December 2017, the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviations of Code A.4.1 and A.6.7.

A. Directors

A.1 The Board

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 37 Board meetings in the year of 2017. Directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors.

- Directors may attend meetings in person or through other means of telephone, electronic or other communication facilities in accordance with the minutes of the Board. The Board Committees are recorded in sufficient details and kept by the company secretary for inspection at any reasonable time on reasonable notice by any Director.

- Directors were supplied with adequate and relevant information in a timely manner to enable them forming decision in the relevant meetings. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Agreed procedures are in place providing to the member of the Board and/or committee to seek independent professional advice at the Company's expenses to assist them to discharge their duties.

- Where a substantial shareholder or a Director had a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, a Board meeting was held by physical board meeting rather than a written resolution with the presence of Independent Non-executive Directors ("**INEDs**") who have no material interest in the transaction.

CORPORATE GOVERNANCE REPORT

- There was in place a Directors' and Officers' Liabilities Insurance cover in respect of legal actions against Directors and senior management arising out of corporate activities.

- The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and annual general meeting ("**AGM**") during the year ended 31 December 2017 are set out below:

Attendance Records

	Number of meetings attended/held					
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**	**Nomination Committee**	**Investment Committee**	**Annual General Meeting**
Executives Directors:						
Mr. Deng Jun Jie *(Chairman)*	30	N/A	N/A	3	N/A	1
Mr. Wang De Yin* *(Chairman and CEO)*	7	N/A	N/A	2	4	N/A
Mr. Lin Yue Hui *(CEO)*	37	N/A	N/A	N/A	22	1
Mr. Liu Feng	37	3	N/A	N/A	22	1
Ms. Deng Xiao Ting	37	N/A	N/A	N/A	N/A	1
Ms. Chu Yin Yin, Georgiana	31	N/A	N/A	N/A	N/A	1
Independent Non-Executive Directors:						
Mr. Guo Chao Tian	36	3	2	3	N/A	–
Mr. Wong Siu Keung, Joe	37	3	2	3	N/A	1
Ms. Qiu Na	37	N/A	2	N/A	N/A	1

N/A: not applicable

* Resigned on 21 April 2017

A.2. Chairman and Chief Executive Officer

- Mr. Deng Jun Jie ("**Mr. Deng**") is a Chairman of the Company and Mr. Lin Yue Hui ("**Mr. Lin**") is a Chief Executive Officer ("**CEO**") of the Company. The segregation of duties of the Chairman and the CEO ensures a clear distinction in the responsibility of Chairman and the CEO. Their roles are clearly defined as below to ensure their respective independence. There is no relationship between the Chairman and CEO in respect of financial, business, family or other material/relevant relationship.

CORPORATE GOVERNANCE REPORT

- The Chairman provides leadership and focus on his role for the Group's overall strategy planning, analysis of market trend and establishment of the Group's future development direction. Also, he is responsible for the effective functioning of the Board in accordance with good corporate governance practice, and encourages and facilitates active contribution of directors in board activities and constructive relations between executive and non-executive Directors. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at board meeting.

- The Chairman, with the assistance of the Company Secretary and other relevant departmental heads, reviews from time to time various procedural aspects of the Company in order to ensure that good corporate governance practices and procedures are well in place.

- The Chairman believes that it is in the Directors' own best interest to voice whatever concerns they may have as each Director has the same general legal responsibilities to the Company as any other Director, regardless of whether they are executive or non-executive. As such, in each Board meeting, the Chairman nurtures an open and uninhibited environment where other Directors with different views are free to express their own opinions.

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2017 and the Company's business plan to be developed in 2018. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Company's future development.

- When compiling board papers, the Chairman works closely with the Company Secretary to ensure that comprehensive, adequate, complete, reliable and timely information are presently to the Board to enable them to set strategy, monitor progress towards meeting the Group's objectives and to conduct regular reviews of financial performance, risk management and other business issues.

- On the other hand, the CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives and risk assessment for the Board's approval.

- The executive Directors and Management also work closely with the Company Secretary to ensure that information necessary to keep Directors updated of the latest situation of the Company and for them to make informed decisions are presented to the Board in a timely manner.

CORPORATE GOVERNANCE REPORT

A.3 Board Composition

- The Board comprises a total of 8 members including 5 executive Directors and 3 INEDs. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

- During the year, the Board at all times met the requirements of the Listing Rules of 3.10 relating to having at least 3 INEDs, and one of the INEDs has possessed professional qualifications in accounting and financing field. Mr. Wong Siu Keung, Joe ("**Mr. Wong**") is a certified public accountants.

- The Company has received written confirmation from each INED of their independence to the Group. The Group considered all of INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

- The Company has maintained an updated list of its directors identifying their role and function on its website and on the Stock Exchange's website.

- Ms. Deng Xiao Ting, is an executive Director of the Company, she is the sister of Mr. Deng.

- Save as disclosed above, to the best knowledge of the Company, there is no financial, business or family relationship among the members of the Board.

- The names of the directors and their respective biographies are set out on pages 40 to 42 of this annual report.

A.4 Appointment, re-election and removal

The Company has on 19 January 2012 established Nomination Committee, further details of which are set out in section of A.5 Nomination Committee. All Directors including INEDs have signed letter of appointments with the Company. In addition, the shareholders have right to nominate any person to become a director of the Company in accordance with the Articles of Association ("**A.A.**") of the Company, the procedure for election of directors was published on the Company's website.

- The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the A.A. which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an additional to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Nomination Committee has considered the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

CORPORATE GOVERNANCE REPORT

- The Company's A.A requires for those Directors appointed to fill a casual vacancy to hold office only until the first general meeting after their appointment and be subject to re-election at such meeting. The Company's A.A. also requires at every AGM, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Directors, including those appointed for a specific term shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election to fill a casual vacancy until the next general meeting or the next AGM.

- All INEDs of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at AGM of the Company in line with the Company's A. A. This deviates from Code Provision of A.4.1 of CG Code, non-executive Directors should be appointed for a specific term, subject to re-election while all Directors should be subject to retirement by rotation at least once every three years.

- Any appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. Up to the report date, no INED had been appointed by the Company for over nine years.

A.5 Nomination Committee

- The Nomination Committee comprised an executive Director, namely Mr. Deng (Committee Chairman), two INEDs, namely Mr. Wong and Mr. Guo Chao Tian ("**Mr. Guo**"). The terms of reference of the Nomination Committee is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Nomination Committee include the following:

  i. To review the structure, size and composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service) of the Board at least annually and to make recommendations on any proposed changes to the Board to implement the Company's corporate strategy;

  ii. To identify individuals who are qualified/suitable to become a member of the Board and to select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Nomination Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

  iii. To advise the Board on the appointment and succession planning of Directors and assessing the independence of INEDs;

CORPORATE GOVERNANCE REPORT

iv. To review the Board Diversity Policy; and

v. The Nomination Committee is required to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Company has adopted a board diversity policy (the "**Policy**") in August 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Policy has been available on the Company's website.

- The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge and length of service.

- During the year under review, the Nomination Committee held one meeting to review the composition of the Board and its committees as well as the background and experiences of the Board members and evaluate the contributions of the Board members to the Group in 2017. An analysis of the Board's current composition is set out in the following chart:

Name of director	Title	Age	Gender	Professional/ Industry experience	Length of service on Board (since)
Deng Jun Jie	ED and Chairman	47	Male	Financial investment and capital operation	April 2017
Lin Yue Hui	ED and CEO	46	Male	PRC law profession and investment	August 2011
Liu Feng	ED	55	Male	Banking, financing and property operation	August 2011
Deng Xiao Ting	ED	43	Female	Accounting and investment	July 2012
Chu Yin Yin, Georgiana	ED and Company Secretary	47	Female	Accounting, auditing and financing	October 2006
Guo Chao Tian	INED	72	Male	Economic analysis and investment	June 2012
Wong Siu Keung, Joe	INED	53	Male	Accounting, auditing and financing	October 2012
Qiu Na	INED	39	Female	Accountancy	September 2016

ED: executive Director
INED: Independent non-executive Director

CORPORATE GOVERNANCE REPORT

- The Nomination Committee review the Policy from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

- During the year, the Nomination Committee held 3 meeting and the attendance of each member is set out in the section headed "The Board" of this report.

A.6 Responsibilities of the Directors

- The Company ensures that every newly appointed Director should receive a comprehensive information package containing business activities and operation of the Group, the Directors' responsibilities and duties and other statutory requirement upon his/her appointment. The Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other statutory requirement.

- All Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2017, the Company has arranged a training to all Directors which was provided by the accredited service provider.

  During the year ended 31 December 2017, the Directors participated in the following training:

	Type of Continuous Professional Development		
	Training on regulatory development, directors' duties or other relevant topics	**Reading on regulatory updates or information relevant to directors' duties and the Company**	**Courses relating to Corporate Governance/ Accounting/ Financial or other professional skills**
Mr. Deng Jun Jie	X		
Mr. Lin Yue Hui	X		
Mr. Liu Feng	X		
Ms. Deng Xiao Ting	X		
Ms. Chu Yin Yin, Georgiana	X	X	X
Mr. Guo Chao Tian	X		
Ms. Qiu Na	X		
Mr. Wong Siu Keung, Joe	X	X	X

- INEDs were well aware of their functions and had been actively providing their independent advices at the Board meetings, take the lead where potential conflicts of interest arise and scrutinize the Company's performance so as to achieve agreed corporate goals.

- Mr. Wong and Mr. Guo both of INEDs, are members of the Audit, Remuneration and Nomination Committees. Ms. Qiu Na ("**Ms. Qiu**") is a member of Audit Committee.

- There were satisfactory attendances and active participations at the Board meetings, the Board Committee meetings and the general meetings by the Directors.

- The Company has adopted the full set of Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by Directors (the "**Model Code**"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all Directors, the Board confirms that the Director of the Company have complied with the Model Code regarding directors' securities transactions during the year and up to the date of the Annual Report.

A.7 Supply of and access to information

- The Company's senior management regularly supplies the Board and its Committees with adequate information in a timely manner to enable them to make informed decisions.

- For Board meetings and the Board Committee meetings, the agenda accompanying with Board papers and relevant materials were sent to all Directors at least 3 days before the intended date of the Board meetings or Board Committee meetings. Queries raised by the Directors would be responded promptly by the relevant management.

B Remuneration of Directors and Senior Management

The Company has established a Remuneration Committee since 29 June 2005 with written terms of reference in consistence with the CG Code. A majority members of the Remuneration Committee is INEDs. The Remuneration Committee currently comprises two INEDs, namely Mr. Wong (Committee Chairman), Mr. Guo and an executive Director, namely Mr. Liu Feng. The terms of reference of the Remuneration Committee is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Remuneration Committee include the following:

  i. To make recommendation to the board on the Company's policy and structure for all remuneration of directors and senior management;

  ii. To determine the remuneration packages of executive directors and senior management, according to the major scope, responsibilities and duties, importance of position of the directors and the senior management as well as the remuneration level of the related position in the market;

  iii. To review and approve management remuneration policy with reference to corporate goals and objectives resolved by the Board from time to time;

  iv. To report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

CORPORATE GOVERNANCE REPORT

- The Remuneration Committee would consult the Chairman or CEO the proposals relating to the remuneration of other executive Directors. The Remuneration Committee may have access to external professional advice if considered necessary.

- The details of the remuneration of the Directors are set out in note 44 of the consolidated financial statements of this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

Emolument band (HK$)	**2017 Number of individuals**	2016 Number of individuals
Nil to 500,000	**4**	1
500,001 to 1,000,000	**1**	3

  During the year, the Remuneration Committee determined the remuneration packages of the executive Directors including INEDs and senior management of the Company, and reviewed the collective performance and individual performance.

- The Group's share option scheme as described on note 41 of this annual report is adopted as the Group's long-term incentive scheme.

- The Remuneration Committee held 3 meetings during the year to review and approve the remuneration of executive Directors including INEDs and senior management. The attendance record of individual members is set out in the section headed "The Board" of this report.

C Accountability and Audit

C.1 Financial Reporting

- Management was required to provide detailed reports and sufficient explanation to enable the Board to make an informed assessment of the financial and other information put before for approval.

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

- 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 requirement.

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 106 to 111 of this annual report.

- A separate statement in the Annual Report on pages 12 to 39 containing a discussion and analysis of the Group's performance.

- Executive Directors are provided with a wide range of reports on monthly intervals and are fully aware of the Company's latest performance, position and prospects.

CORPORATE GOVERNANCE REPORT

C.2 Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review a sound and effective risk management and internal control systems. An enterprise risk management ("**ERM**") framework is in place to implement risk management and internal control effectively.

Our risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve the Group's business objectives, and can only provide reasonable, but not absolute assurance against material misstatements or losses.

Risk Management Structure

Effective risk management resides at all levels of the Group. Staff in different business units identify and manage risks during their daily operation, the management is responsible for identifying, assessing and responding to risk at strategic level. The Board and the Audit Committee reviews and monitors major risks and effectiveness of risk management and internal control systems. Through this top down and bottom up approach, together with independent review by the internal audit function, assisted the Group manage its major risks in an effective manner.

Risk Management Structure	
The Board	• Oversees the risk management and internal control systems; • Determines the Group's business strategies and risk appetite; • Reviews at least annually the effectiveness of the risk management and internal control systems; and • Monitors the risk management and internal control systems in an on-going manner.
Audit Committee	• Oversees the evaluation and improvement process of risk management and internal control systems. • Reviews the Group's risk register; and • Reviews and approving the internal control review plan and review results.
Management and staff	• Identify and Monitor all risks relevant to daily operations of the Group; • Report to the Board and Audit Committee on the risks identified including strategic, operational, financial and compliance risks and its changes during the year; • Implement, execute and on-going monitor risk management and internal control processes; and • Develop and execute appropriate action plans to mitigate the risk identified and to resolve material internal control defects.
Internal audit function and external auditors	• The Group has put in place an internal audit function; • Review the effectiveness of the Group's risk management and internal control systems; • The scope of the internal control review is risk-based and is reviewed by the Audit Committee; • The internal audit team will report the review result directly to the Audit Committee; and • External auditor is also able to communicate internal control issues they noticed during their audit to Audit Committee directly.

CORPORATE GOVERNANCE REPORT

Risk Management Process

The risk management process defined the procedures for identifying, assessing, responding and monitoring risks and their changes. The Management discusses regularly with each operating functions to collect their views towards the risks they have identified at operation level, and to strengthen their understanding to risk management at the Group's strategic level foster two way communication. Management collect views towards risks at different angle and formulate risk universe, from which risks relevant to the Group are identified. Risk identification is a continuous and interactive process, major risks are communicate between the bottom and the top.

Significant risks are classified into one of the four categories: strategic, operational, financial and compliance. After identified all relevant risks, the Management assess the potential impact and possibilities of the risks and prioritize the risks, appropriate internal control measures are then developed to mitigate the risks and effectiveness of internal control measures and changes of risks are monitored in an on-going manner and communicate to the Board and Audit Committee to allow their monitoring at the top level.

Main features of our risk management and internal control systems

Maintain an effective internal control system at operational level

- Establish clear internal control policies and procedures, clearly define the responsibilities, authorities and accountabilities of each key positions;
- Establish code of conduct, explain the Group's requirements on integrity and ethical value to all staff;
- Establish whistle blowing mechanism, encourage employees to report incidents of misconduct or fraud;
- Establish appropriate level of information technology access rights, avoid leakage of price sensitive information; and
- Establish insider information disclosure policy, including reporting channels and responsible person of disclosure, unified response to external enquiries and obtain advices from professionals or the Stock Exchange, if necessary.

CORPORATE GOVERNANCE REPORT

In evaluating the effectiveness internal control systems, the Board has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions.

On-going risk monitoring at risk management level

The Management identifies and mitigates major risks according to the risk management process, the identified risks are summarized in risk register and submitted to the Board and Audit Committee for their review together with a 2-year internal control review plan to enable the Board and Audit Committee effectively monitor major risks of the Group and how the risks are managed. Major risks relevant to the Group are shown on pages 37 to 39 of this Report.

Independent review

The internal audit function of the Group is independent to the operational functions under review. The scope of review is prepared according to the risk assessment result and have been approved by the Audit Committee. The internal audit team has performed an independent review on the risk management and internal control systems of the Group, covered the period from 1 January 2017 to 31 December 2017, so as to assess its effectiveness. A report of the internal control review was submitted to the Audit Committee and the Management has established remediation and improvement plan for internal control weaknesses identified. In addition, the Company has engaged a compliance advisor for consultation matters so as to reinforce and stringent control on the Listing Rules compliance.

In respect of the year ended 31 December 2017, the Audit Committee and the Board considered the internal control system is effective and adequate. No significant areas of concern that might affect the Group were identified.

CORPORATE GOVERNANCE REPORT

C.3 Audit Committee

The Audit Committee of the Company was established since 29 June 2005 with specific written terms of reference. The Audit Committee comprises 3 INEDs, namely Mr. Wong (Committee Chairman), Ms. Qiu and Mr. Guo. Mr. Wong is a certified public accountant for many years. The revised term of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

The major duties of the Audit Committee include:

(a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and the terms of engagement of the external auditor;

(b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgments contained in them;

(c) to monitor and review the Company's financial controls, internal control and risk management systems;

(d) to co-ordinate between the internal and external auditors, to monitor the performance of both internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(e) to review the interim and final results of the Group prior to recommending them to the Board for approval;

(f) to ensure compliance with applicable statutory accounting and reporting requirements, Listing Rules, legal and regulatory requirements, an internal rules and procedures approved by the Board;

(g) to review and discuss the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget;

(h) to monitor the compliance of the Whistle-blowing policy and ensuring the fair and independent investigation with appropriate follow up action;

(i) to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

For the year under review, the Audit Committee held 2 meetings included the review of the final results for the year ended 31 December 2017 and interim accounts for 30 June 2017. The Group's annual report for the year ended 31 December 2017 and internal audit reports have been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

D. Delegation by the Board

D.1 Management functions

- When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

- The segregation of duties and responsibilities between the Board and the management has been defined as follows:

  The overall management of the Company's business is vested on the Board. The duties of the Board include:

  – Formulating and the approval of the Company's operational strategies and management policies and establishing corporate governance and internal control system;

  – Setting the objectives and targets of the Company;

  – Monitoring performance of management and providing guidance to the management; and

  – Reviewing the Company's policies and practices on corporate governance.

  The day to day management administration and operation of the Company are delegated to the senior management. The duties of the management include:

  – Regularly evaluating businesses and operation performance;

  – Ensuring effective implementation of the Board's decision;

  – Ensuring adequate fundings; and

  – Monitoring performance of the management of the Group.

- Each Director including INED was appointed by formal letter of appointment with the Company upon appointment. Such letter of appointment sets out key terms and condition, the roles and functions and amount of remuneration.

D.2 Board Committees

The Company has set up four committees including an Audit Committee, a Remuneration Committee, a Nomination Committee and an Investment Committee of the Board with respective terms of reference which clearly defined its authority and duties. The Chairman of Board Committees reported to the Board their work, findings and recommendations at the Board meetings.

CORPORATE GOVERNANCE REPORT

D.3 Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

E Communication with shareholders and investors

E.1 Effective communication

- The AGM or other general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings.

- The Company serves notice to shareholders in writing of not less than twenty-one (21) clear days and not less than twenty (20) clear business days before the AGM. Any Extraordinary General Meeting ("**EGM**") at which the passing of a Special Resolution may be called by notice in writing of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other EGM may be called by notice in writing of not less than fourteen (14) clear days and not less than ten (10) clear business days.

- The external auditor of the Company should attend the AGM to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

- Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors proposed by shareholders.

- The Company continues to enhance communications and relationships with its investors. Designated Directors or senior management maintains regular dialogue with investors and analysis to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

- The Company maintains a corporate website (www.chinawaterind.com) as one of the channels to promote effective corporate communication with the investors and the general public. The website is used to disseminate company announcements, shareholder information and other relevant financial and non-financial information in an electronic format on a timely basis.

- The updated consolidated version of the Company's Memorandum and A.A is available on the Company's website and on the Stock Exchange's website. During the year ended 31 December 2017, there was no change in the Company's constitutional documents.

- The Board has adopted a Shareholders' Communication Policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. The Policy will be reviewed regularly to ensure effectiveness and compliance with the prevailing regulatory and other requirements.

E.2 Shareholders' rights

- Procedures for Shareholders to Convene an EGM

  Pursuant to the A.A of the Company, the Directors may, whenever they think fit, convene an EGM. EGM 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 EGM 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. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (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 Proposing a Person for Election as a Director

  As regards the procedure for proposing a person for election as a Director, please refer to the procedures made available under the "Corporate Governance" section ("Procedure for shareholders to propose a person for election of Directors" sub-section) of the Company's' website at www.chinawaterind.com.

- Procedures for Directing Shareholders' Enquiries to the Board

  Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary and the Group Financial Controller whose contact details are set out in the "Contact Us" section of the Company's website at www.chinawaterind.com.

CORPORATE GOVERNANCE REPORT

- Procedures for making proposals at Shareholders' Meetings

  To put forward proposals at an AGM or EGM, the shareholders should submit a written notice of those proposals with detailed contact information to the Company Secretary at the Company's principal place of business at Room 1207, 12/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

  The notice period to be given to all shareholders for consideration of the proposal raised by the shareholders concerned at an AGM or EGM varies according to the nature of the proposal, as follows:

  - At least 14 clear days and not less than 10 clear business days if the proposal constitutes an ordinary resolution of the Company in an EGM.

  - At least 21 clear days and not less than 10 clear business days if the proposal constitutes a special resolution of the Company in an EGM.

  - At least 21 clear days and not less than 20 clear business days if the resolution of the Company in an AGM.

E.3 Voting by poll

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's A.A. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results were published on the website of the Stock Exchange as well as the Company's website.

F. Company Secretary

The Company Secretary has been a full time employee who has knowledge of the Company's affairs. The appointment of the current Company Secretary was approved by the Board in November 2006. The Company Secretary reports to the Chairman and CEO and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training.

INVESTMENT COMMITTEE

The Investment Committee of the Company was established since 18 December 2008 with specific terms of reference. The Committee members consisted of two executive Directors, namely Mr. Lin (Committee Chairman), Mr. Liu Feng and two senior management of the Group including Mr. Liu Wei Qing (Vice president) and Mr. Zhong Wei Guang (Vice president) and two department managers of Mr. Li Han (General Manager of Investment and Finance Department) and Mr. Tang Po Shing (Deputy General Manager of Investment and Finance Department). The terms of reference of the Investment Committee is available on the Company's website.

- The role of Investment Committee is to oversee the Company's long-term development strategies and major investment decisions and to provide recommendations on the investment of the Company including asset allocation and new investment proposal.

- The major duties of the Investment Committee include:

  (a) Analysis and evaluation of the Company's long-term planning and major investment plans;

  (b) Review the investment policies and strategy;

  (c) Review and analysis of the actual progress of the Company's major strategies plans;

  (d) Review the annual investment proposal of the Company; and

  (e) Report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Investment Committee held 22 meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

AUDITORS' REMUNERATION

For the financial year, the remuneration paid and payable to Crowe Horwath (HK) CPA Limited, the auditors of the Company, totalled approximately of HK$2,626,000, of which HK$2,616,000 related to audit services and HK$10,000 to professional services for special engagements, taxation and other non-audit services. The auditors' remuneration has been duly approved by the Audit Committee and there was no disagreement between the Board and the Audit Committee on the selection and appointment of auditor.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31 December 2017 except for deviations from the code provision A.4.1 and A.6.7 as below:

- Pursuant to the code provision of A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all Directors should be subject to retirement by rotation at least once every three years. All INEDs of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Article of Association.

- Pursuant to code provision A.6.7 of the CG Code, the INEDs and other non-executive Directors should attend general meetings. At the AGM held on 16 June 2017 ("2017 AGM"), Mr. Guo was unable to attend 2017 AGM due to his business engagement in China. Mr. Guo is an INED of the Company. Except for him, all Directors of the Company had attended the 2017 AGM, at which the Directors had communicated with and developed a balanced understanding of the views of shareholder.

Upon the resignation of Mr. Wang De Yin as a Chairman and CEO and the appointments of Mr. Deng and Mr. Lin as a Chairman and CEO respectively with effective on 21 April 2017, the roles of Chairman and CEO of the Company were separated and performed by different persons. Such arrangements were complied with the requirement in CG Code. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

REPORT OF THE DIRECTORS

The board of Directors of the Company, present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Group include: (i) provision of water supply and sewage treatment service; (ii) construction of water supply and sewage treatment infrastructure; and (iii) exploitation and sale of renewable energy in the PRC. The details of principal activities and other particulars of the subsidiaries are set out in note 23 to the consolidated financial statements.

Details of the activities during the year as required by schedule 5 to the Companies Ordinance, including a description of the key risks and uncertainties facing the Group, an indication of likely future development in the Group's business and the Group's environmental policies and performance are set out under the sections of Management Discussion and Analysis on pages 12 to 39, Chairman Statement on pages 5 to 11 and Environmental, Social and Governance Report on pages 74 to 105 of this Annual Report respectively. An analysis of the Group's performance during the year using financial key performance indicators can be found throughout this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Analyses of the Group's segmental information by businesses for the year ended 31 December 2017 are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group and the Company are set out in the financial statements on pages 112 to 248.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017. (FY2016: nil)

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees, customers and suppliers are the key stakeholders who affected the sustainability of our business. Engaging with those stakeholders will not only help us understand the possible risks and opportunities to our business, but also help us to mitigate risk and seize the opportunities in the real market situation. The Group believes that our people are critical success factors to the Group's competitiveness in the market. As such, we had adopted a Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Customer satisfaction with our services and products has a profound effects on our profitability. To provide good quality services to our customers, our dedicated teams are in constant communication with our customers and potential customers to uncover and create customer needs and help customers make informed decisions. Collaborative and mutual beneficial business relationship with our suppliers is of important to achieve higher levels of efficiency and competitive advantage. The Group evaluate the capabilities of our suppliers to determine if they are able to meet the requirement and needs of the Group from time to time. Developing and maintaining good relationship with various commercial banks and financial institutions always are our main tasks because our capital-intensive projects require on-going funding to maintain continuous growth.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate amount of revenue attribute to the Group's five largest customers was less than 30% of the total value of the Group's revenue. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in note 35 and note 41 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 35 to the consolidated financial statements, respectively.

The Company's reserves available for distribution comprise the share premium account, less accumulated losses. As at 31 December 2017, the reserves of the Company available for distribution to shareholders amounted to HK$257,850,000 (2016: HK$377,689,000).

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2017 are set out in note 30 to the consolidated financial statements.

FIVE YEARS 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 4.

DIRECTORS

The Directors of the Company were:

Executives Directors:

Mr. Deng Jun Jie *(Chairman) (Appointed on 21 April 2017)*
Mr. Wang De Yin *(Chairman and Chief Executive Officer) (Resigned on 21 April 2017)*
Mr. Lin Yue Hui *(Chief Executive Officer, appointed on 21 April 2017)*
Mr. Liu Feng
Ms. Deng Xiao Ting
Ms. Chu Yin Yin, Georgiana

Independent non-executive Directors:

Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian
Ms. Qiu Na

In accordance with article 108(A) of the Company's Articles of Association ("**A.A.**"), one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, Mr. Lin Yue Hui, Mr. Liu Feng and Mr. Wong Siu Keung, Joe will retire from office by rotation and will offer themselves for re-election at the AGM.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the Directors and senior management of the Company are set out on pages 40 to 43 of the Annual Report.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The Company has adopted a Share Option Scheme as incentive to Directors and eligible employees, details of the scheme are set out as "Share Option Scheme" below.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2017, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the A.A. of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the securities and futures ordinance ("**SFO**") which (a) had been notified of the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions in which directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for securities transactions by Directors of listed companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

REPORT OF THE DIRECTORS

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Deng Jun Jie	Interest of controlled corporation	437,788,000 (L) *(Note)*	27.42%
Mr. Lin Yue Hui	Beneficial owner	5,000,000 (L)	0.31%
Mr. Liu Feng	Beneficial owner	5,000,000 (L)	0.31%
Ms. Deng Xiao Ting	Beneficial owner	3,000,000 (L)	0.19%
Ms. Chu Yin Yin, Georgiana	Beneficial owner	743,200 (L)	0.05%

Note: Mr. Deng Jun Jie ("**Mr. Deng**") is the beneficial owner of all share capital of Honghu Capital Co., Ltd. ("**Honghu Capital**") and is deemed to be interested in the 437,788,000 shares held by Honghu Capital.

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2017.

The letter "L" denotes a long position in shares of the Company.

(ii) Interest in the shares of associated corporation

Name of director	Name of associated corporation	Nature of interest	Number of shares held *(Note i)*	Percentage of shareholding
Mr. Deng	Honghu Capital	Beneficial owner	1,000	100%

Note i: The disclosed interest represents the interests in the associated corporation, Honghu Capital which is held 100% by Mr. Deng. Under SFO, Mr. Deng is taken to be interested in the same number of shares in which other is interested.

Save as disclosed above, as at 31 December 2017, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions which directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section "Directors' and Chief Executive's interests in securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate Percentage of the issued share capital of the Company
Honghu Capital	Beneficial owner	437,788,000 (L) *(Note 1)*	27.42%
Yue Xiu Great China Fixed Income Fund VI LP	Beneficial owner	79,872,000 (L) *(Note 2)*	5.00%
Kingsford Global Asset Management Limited	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	5.00%
Mr. Li Wei	Interest of controlled corporation	79,872,000 (L) *(Note 2)*	5.00%

Note 1: These shares are held by Honghu Capital which Mr. Deng is the beneficial owner. Mr. Deng is deemed to be interested in shares held by Honghu Capital by virtues of the SFO.

Note 2: Yue Xiu Great China Fixed Income Fund VI LP is directly wholly-owned subsidiary by Kingsford Global Asset Management Limited, which is indirectly wholly-owned by Mr. Li Wei.

Note 3: The shareholding percentage in the company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2017.

Note 4: The letter "L" denotes a long position in shares.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PERMITTED INDEMNITY PROVISION

Pursuant to the A.A, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his or her office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the subsidiaries of the Company in Hong Kong and the PRC while the shares of the Company are listed on the Stock Exchange. The Group's establishment and operations shall comply with the relevant laws and regulations in Hong Kong, the PRC and the relevant places of incorporation of the company and its subsidiaries. In addition, the Company is required to comply with the Listing Rules and SFO. As far as the Board and the 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 and up to the date of this report, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme adopted by the Company described below, the Group has not entered into any equity-linked agreements during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

CONNECTED TRANSACTIONS

During the year, the Group has not entered into any significant connected transaction or continuing connected transaction which should be disclosed pursuant to the requirement under the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 46 to the financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules which requires to be disclosed.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which Directors were appointed as directors to represent the interest of the Company and/or the Group.

SHARE OPTION SCHEME

At the AGM of the company held on 3 June 2011, the shareholders of the Company approved the adoption of the Company's New Share Option Scheme ("**Scheme**"). A summary of the principal terms of the Scheme, as disclosed in accordance with the Listing Rules on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") is as follows:

(i) Purpose

The purpose of the Scheme is to enable the Company to grant options to selected eligible participants as incentive and/or rewards for their contribution and support to the Group and any invested entity and/or to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any invested entity. The basis of eligibility of any of the participants to the grant of options shall be determined by the Board from time to time on the basis of the Board's opinion as to his/her contribution or potential contribution to the development and growth of the group.

(ii) Qualifying participants

Under the terms of the Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "**eligible participants**").

(iii) Maximum number of shares

The scheme mandate limit for the Scheme allows the Company to issue a maximum of 159,653,976 share options under the Scheme, representing 10.00% of the issued share capital of 1,596,539,766 shares of the Company as at 31 December 2017.

REPORT OF THE DIRECTORS

(iv) Maximum entitlement of each eligible participant

Share options granted to connected person and its associates is subject to the approval of the INEDs. In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any eligible participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

(v) Option period

In respect of any particular option, such period commencing on the date of grant or such later date as the Directors may decide and expiring on such date as the Directors may determine, such period not to exceed 10 years from the date of grant.

(vi) Acceptance of offer

An offer of the grant of an option shall remain open for acceptance for a period of 21 days from the date of the letter containing the grant. An offer of the grant of the option shall be regarded as having been accepted when the duplicate of the grant letter duly signed by the grantee together with a remittance in favour of the company of HK$1.00 by way of consideration for the grant thereof is received by the Company.

(vii) Subscription price

The subscription price in respect of any particular option shall be such price as the Directors may determine at the date of grant of the relevant option but shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

(viii) The remaining life of the Scheme

The Directors shall be entitled at any time within 10 years commencing on 3 June 2011 to offer the grant of an option to any eligible participant. The Scheme will expire on 2 June 2021.

Save for the Scheme, the Company did not have any other share option scheme as at 31 December 2017. From the date of the Scheme being adopted up to 31 December 2017, no options had been granted and remained outstanding under the Scheme of the Company.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's A.A 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.

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor its subsidiaries purchased, redeemed or sold of the Company's listed securities.

RETIREMENT SCHEMES

The Group's subsidiary in the PRC participates in a central pension scheme ("**CPS**") operated by the PRC government. The subsidiaries are required to contribute a certain percentage of the relevant PRC employees' salaries to the CPS. The Group's subsidiary in Hong Kong has also participated in a mandatory provident fund scheme for its staff based in Hong Kong pursuant to the mandatory provident fund schemes ordinance. Save as disclosed, the Group was not required to operate any other of retirement benefits of its employees during the year.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 48 to the consolidated financial statements.

SUFFICIENT OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at date of this report.

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an Audit Committee comprising three INEDs of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2017. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 56 of this Annual Report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2016 Annual Report required to be disclosed were as follows:

(i) the updated biographic details of the Directors are set out on pages 40 to 42 of the Annual Report;

REPORT OF THE DIRECTORS

(ii) On 21 April 2017, Mr. Wang De Yin ("**Mr. Wong**") has resigned to act as a Chairman, a Chief Executive Officer, an executive Director and a Chairman of both of the Nomination Committee and the Investment Committee of the Company and other directorship in subsidiaries of the Group. Mr. Wang was appointed as a chief consultant subsequent to the cessation of his aforesaid service. At the same date, Mr. Deng has been appointed as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company and Mr. Lin Yue Hui ("**Mr. Lin**"), currently an executive Director of the Company, has been appointed as a Chief Executive Officer and is re-designated from a member to a Chairman of the Investment Committee of the Company.

Save as disclosed above, there is no other information required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE

The Company's Corporate Governance principles and practices are set out in the Corporate Governance Report on page 44 to 62 of this Annual Report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the INEDs an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules and considers all the INEDs to be independent.

ANNUAL GENERAL MEETING ("AGM")

The AGM of the Company will be held on Wednesday, 13 June 2018. Notice of AGM will be published on the websites of the Company (www.chinawaterind.com) and the Stock Exchange (www.hkexnews.hk), and will be despatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

In order to determine shareholders' eligibility to attend and vote at the forthcoming AGM of the Company to be held on Wednesday, 13 June 2018, the register of members of the Company will be closed from Friday, 8 June 2018 to Wednesday, 13 June 2018 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for entitlement to attend the AGM, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration, not later than 4:00 p.m. on Thursday, 7 June 2018.

AUDITORS

Crowe Horwath (HK) CPA Limited (the "**Crowe Horwath (HK)**") will retire, being eligible and offer themselves for re-election. A resolution is to be proposed by the Company at the forthcoming AGM, to re-appoint Crowe Horwath (HK) as the auditor of the Company.

By order of the board
Mr. Deng Jun Jie
Chairman and executive Director

Hong Kong, 28 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Purpose of The Report

This is the fourth Environmental, Social and Governance ("ESG") Report (the "Report") of China Water Industry Group Limited ("China Water", "the Company" and together with its subsidiaries, collectively known as "the Group", "We"). It is a summary and report on our sustainable development performance in 2017. We are committed to effective communication with stakeholders on the material ESG issues through this Report in the hope of enhancing our sustainability strategy to put sustainable development into practice.

Reporting Year and Scope

This report covers the reporting period from 1 January 2017 to 31 December 2017 (the "Reporting Period"). Since the revenue from water supply related installation and construction services has continued its steady growth, we have expanded the reporting scope to include this segment. Unless otherwise stated, the scope of reporting covers the Group's core business segments including (i) water supply services; (ii) sewage treatment services; (iii) water supply related installation and construction services; and (iv) exploitation and sale of renewable energy, in the People's Republic of China ("PRC").

Reporting Standards

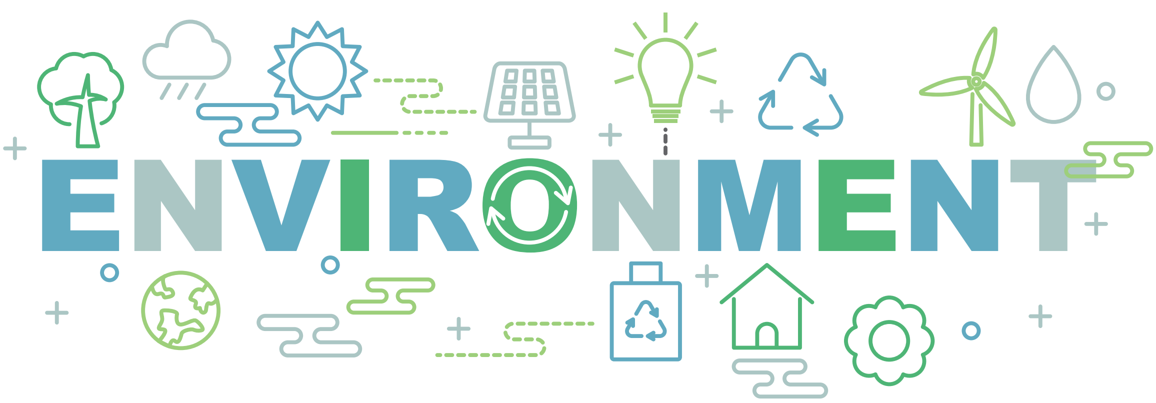
The content of this Report is prepared in accordance with the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKEX ESG Reporting Guide"). This report consists a content index to the ESG Reporting Guide, so as to enhance its readability.

Access to The Report

This report is part of the Group's annual report available in both Chinese and English versions. It is accessible on the Group's website at http://www.chinawaterind.com.

Contact Information

We sincerely welcome your comments and suggestions with regard to this report and our sustainability performance. Please send your feedback to info@chinawaterind.com.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HIGHLIGHTS OF THE YEAR 2017

Water supply business:

340,311,966 tonnes of clean water

Supplying clean water to **5** cities

Renewable energy business:

331,384,002 kWh of green electricity generated

As at 31 December 2017, **20** landfill-gas-to-power projects have been in operation

Equivalent to **2,073,500** tonnes of carbon dioxide emissions avoided

Sewage treatment business:

49,716,092 tonnes of sewage treated

3 sewage treatment projects have been in operation

8,143 tonnes of Chemical Oxygen Demand ("**COD**") reduced

Water hypoxia that hinders water eco-system was prevented by alleviating the amount of organic waste in water

AWARDS AND RECOGNITIONS

Received by	Award	Organizer
China Water Industry Group Limited	2016 China Water Industry Best Investment Value Award for Listed Companies*	www.h2o-china.com
China Water Industry Group Limited	Landfill Field Leading Enterprise*	E20 Environment Platform, China Construction Technology Consulting Co. Ltd., China Urban Construction Design & Research Institute Co. Ltd.
China Water Industry Group Limited	2017 China's Strategic Emerging Environmental Protection Industry Leader*	Environmental Protection Alliance in China Strategic Emerging Industry*
Shenzhen City Li Sai Industrial Development Limited	ISO 9001:2008 Quality Management Systems Certification	Certification International (China) Co., Ltd.
Shenzhen City Li Sai Industrial Development Limited	ISO 14001:2004 Environmental Management Systems Certification	Certification International (China) Co., Ltd.

INDUSTRY PARTICIPATION

Being committed to promoting the development of green business to make the world a better place to live in, we actively participate in different industry activities.

Participating Company	Event	Organizer
China Water Industry Group Limited	Inaugurating meeting of National Environmental Protection New Media Alliance*	Department of Publicity & Education in Ministry of Environmental Protection, China Forum of Environmental Journalists, Xinhua Net, China Newspaper Industry
China Water Industry Group Limited	Hong Kong ECO Expo Asia	Hong Kong Trade Development Council, Messe Frankfurt (HK) Ltd
China Water Industry Group Limited	The 15th Water Sector Strategic Forum 2017	E20 Environment Platform, China Citic Bank Corporation Limited
China Water Industry Group Limited	The 11th Solid Waste Strategic Forum 2017	E20 Environment Platform, China Construction Technology Consulting Co. Ltd., China Urban Construction Design & Research Institute Co. Ltd.
China Water Industry Group Limited	The First Summit Forum of Environmental Protection Alliance in China Strategic Emerging Industry*	Environmental Protection Alliance in China Strategic Emerging Industry*
China Water Industry Group Limited	"One Belt, One Road" City Economic and Trade Co-operation Forum*	People's Government of Shenzhen Municipality

* *For identification only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

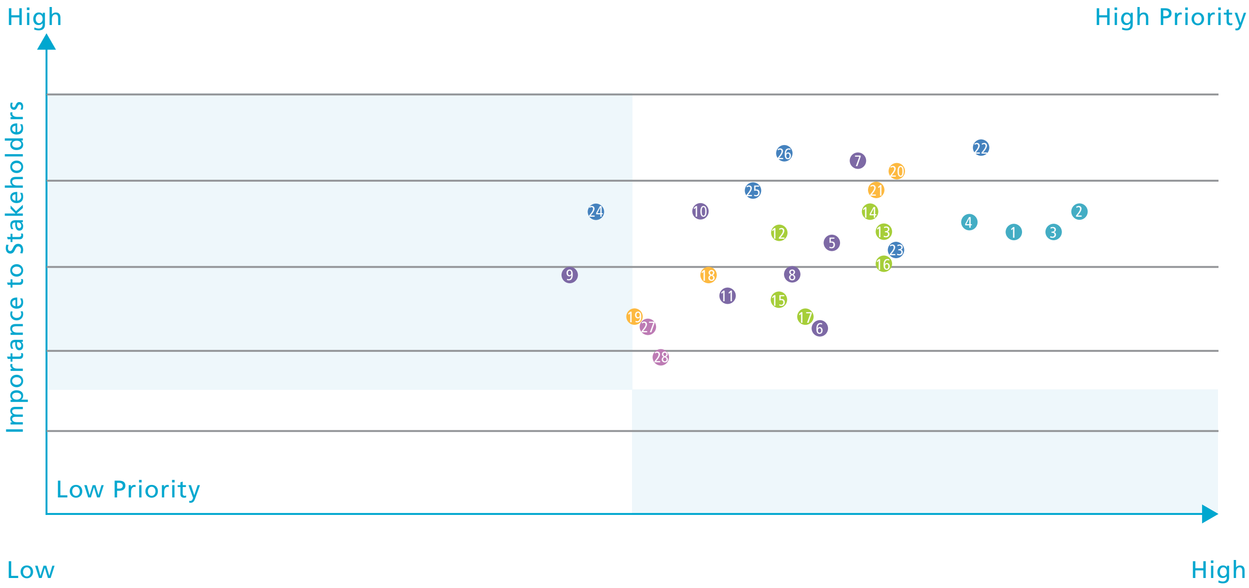
STAKEHOLDER ENGAGEMENT

Stakeholder engagement is an indispensable part of our sustainability strategy. Our major stakeholders include employees, the governments, shareholders, business partners, non-government organizations and the community. We take valuable opinions and suggestions from stakeholders into account when formulating business strategies.

Materiality Assessment

We make good use of diversified channels to communicate with our stakeholders both formally and informally during our operation. This year, we have identified 26 material issues that were considered crucial to us and to our stakeholders and the result serves as a basis to the structure of this report.

Materiality Matrix



Material Issues

1 Sewage Treatment
2 Exploitation and Sale of Renewable Energy
3 Water Supply
4 Water Supply Related Installation and Construction
5 Diversification and Equal Opportunities (Age, Gender, Disability, etc.)
6 Employee Turnover
7 Occupational Safety and Health
8 Training and Development
9 Child and Forced Labor Prevention
10 Employment Relationship/Communication
11 Employee Benefits/Recreation
12 Sewage Discharge
13 Impact to Greenhouse Effect
14 Air Emissions
15 Treatment of Hazardous Wastes
16 Treatment of Non-hazardous Wastes and Other General Refuse
17 Natural Resources (Including Water and Energy)
18 Supplier Management Procedures
19 Supplier Environmental and Social Assessment
20 Anti-Fraud and Corruption
21 Emergency Response Plan
22 Product Safety
23 Complaints Handling
24 Protection of Intellectual Property Rights
25 Customer / Consumer Privacy
26 Research and Development
27 Participation in Voluntary work
28 Donations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR APPROACH TO SUSTAINABILITY

To attain sustainable growth, it is important to consider the needs of our business in the long run. Therefore, based upon our national "clean and low-carbon" policy, our top priority is to put our long-term corporate strategy into effect. Every step of our sustainable development is guided by the 4 dimensions including green business, corporate governance, staff care and community contribution in an effort to bring positive impact to the environment and society. We make every possible effort to carry out our work on environmental protection for the benefit of the public. We care about our employees with endeavor to encourage work-life balance and to safeguard their health and safety. We take initiatives to make contributions to the society and the communities in need.

Our Focus Areas

The group endeavors to the following 4 focus areas to achieve sustainability:

Green Business

- We follow all applicable laws and regulations across our businesses and strive to incorporate the best industry practices to our operations.
- We fully utilize waste to create green energy and minimize its impact on the environment.
- We supply clean water to the public.
- We enhance energy efficiency, conserve water and minimize waste and emission.

Corporate Governance

- We strictly comply with ethical standards and legal requirements.
- We continuously improve supply chain management to encourage our suppliers to fulfill corporate social responsibility.

Staff Care

- We properly adhere to all applicable employment laws and regulations to ensure potential candidates and current employees are equally treated.
- We strengthen staff training to grow with our staff.
- We provide ethical training and establish whistleblowing channels to allow our staff to raise concerns confidentially.
- We reinforce health and safety at workplace through trainings, rewards and other awareness-enhancing activities.

Community Contribution

- We make good use of our resources to give back to the community.
- We raise environmental protection awareness among our staff, business partners and the public.
- We actively communicate with our stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE GOVERNANCE

Target for 2017:

- **Strictly follows ethical standards and legal regulations**
- **Establish an effective risk management framework to strengthen internal controls**
- **Encourage suppliers to fulfill social responsibilities to ensure continuous improvement of supply chain management**

Honesty and Integrity

Being committed to the corporate culture characterized by integrity, loyalty and fairness, the Group actively fosters the same values among our employees to uphold professional conduct. In accordance with relevant laws and regulations, we have adopted a series of internal mechanisms and guidelines to ensure our operations are in line with the our commitment to high standards of corporate governance. The concerned internal mechanisms and guidelines are incorporated into our daily operations, employee policies, supply chain policies, our environmental protection practices as well as our commitment to social responsibility and the wider communities.

We espouse a zero-tolerance approach towards bribery, extortion, fraud, money laundering and other forms of misconducts. Our Code of Conduct ("the code") sets out our high standard on ethical issues and professional conducts. Penalty will be imposed to whoever participated in any of these activities. We provide training and whistle blowing channels to encourage our employees to report any misconduct behaviors and we protect the reporting staff and the collected information. During the Reporting Period, we were not aware of any case of bribery, extortion, fraud and money laundering.

Our water supply project companies collect users' particulars. As such, we formulate information security management system to handle user information with strict confidentiality and educate our staff to handle confidential documents such as users' particulars cautiously. The office storing sensitive information is under surveillance where its access keys are kept by designated staff to safeguard users' data. During the Reporting Period, there is no reported case of privacy infringement.

The Group follows relevant laws and regulations including the Advertisement Law of the PRC and Trademark Law of the PRC as far as our advertisements and trademarks are concerned.

Supply Chain Management

We have always regarded suppliers as our partners and are committed to guiding suppliers in long-term cooperation to establish a stable supply chain. Apart from taking quality, delivery period and prices of suppliers' products and services into account, we also urge them to protect the environment, improve safety and hygiene, attach importance to human rights, and uphold integrity to jointly fulfill corporate social responsibility.

To facilitate sustainability of the supply chain, we prefer working with neighboring suppliers to minimize carbon footprint.

We establish a supplier reviewing system and document suppliers' performance for future reference. The Group maintains human rights and labor rights in the supply chain. We do not tolerate the use of child and forced labor in our operation and we expect the same for our suppliers.

We set standards for our suppliers and establish the List of Approved Suppliers. We regularly visit our suppliers to evaluate and monitor if they fulfill all relevant regulations to identify quality suppliers and eliminate the unqualified, ensuring continuous optimization of supplier management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GREEN BUSINESS

In 2017, the 19th National Congress of the Communist Party of China proposed "Promoting the revolution in energy production and consumption and build a clean, low-carbon, safe and efficient energy system." Low cost energy and environmental protection industries such as comprehensive utilization of bio-natural gas will usher in a golden period of development. The Group continues to actively implement the national major initiatives for the construction of ecological civilization and is committed to the development of biomass resources utilization. At the same time, the Group responded to the national "One Belt, One Road" strategy and actively sought business cooperation with China's friendly and cooperative countries in an effort to build a beautiful China with blue sky, vivid green land and clear water.

Exploitation and Sales of Renewable Energy

Target for 2017:

- **Strengthen the construction of technical teams and set up internal project teams to lay a solid foundation for business expansion**
- **Promote technology research and development, forming a team of experts to conduct professional training in project implementation, operation and maintenance of biogas power generating plants and biogas collection technology, with an aim to enhancing day-to-day operation standards and safety responsibility management for technical staff at all levels**

We believe there is invisible treasure from the waste. We fully utilize waste in the landfill by collecting landfill gas to generate electricity and produce compressed natural gas. As at 31 December 2017, the Group has been operating 20 power generation projects in Jiangsu, Hunan, Shaanxi, Anhui, Hainan, Jiangxi, Sichun, Zhejiang, Chongqing, Shandong, Hebei, Guangxi and Guangdong, delivering green power to the power grid, generating a total of 331,384,002 kwh of green electricity. At the same time, we have been operating 3 compressed natural gas projects in Guangdong and Hunan, generating a sum of 16,212,714 m^3 of compressed natural gas. These waste utilization projects have not only generated renewable electricity but also substantially alleviated the emission of greenhouse gases from landfills. In 2017, a total of 197,084,668 m^3 of landfill gas was collected and equivalent to 2,073,500 tonnes of carbon dioxide emission was avoided because of our projects.

We cover the landfills to reduce odor nuisance, collect emitted hazardous landfill gas, purify the landfill gas into renewable fuel, and utilize the purified landfill gas to generate electricity. The implementation of the project can effectively improve the environmental sanitation of the entire landfill, reduce potential safety hazards of the landfill, and resolve the problems of odor pollution as well as diversion of rainwater and sewage in the landfill.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The following is the accumulated achievement of our renewable energy business since 2014:

Generated
657,997,022
kWh of green electricity

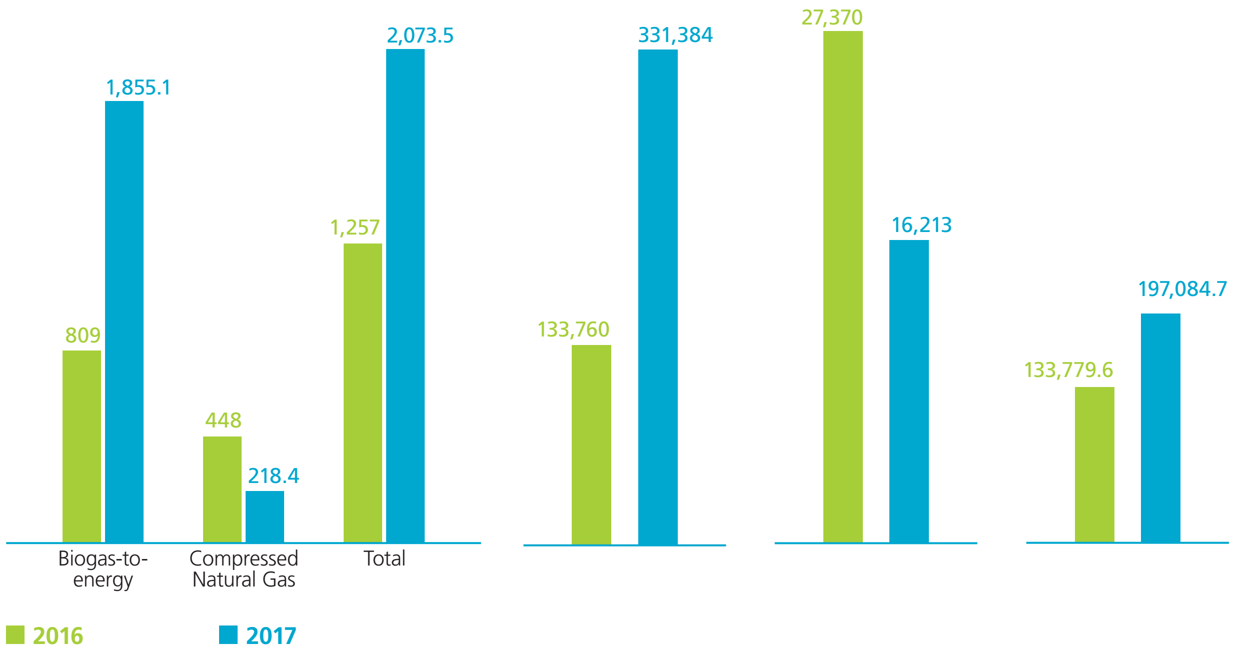
Generated
49,586,661
m³ of compressed natural gas

Equivalent to
7,095,182
tonnes of carbon dioxide emission avoided

Collected
617,141,583
m³ of landfill gas

Our project companies adopt stringent emission standards and comply with all relevant laws and regulations in the course of operation. We have developed a comprehensive environmental management system in accordance with the Environmental Protection Law of the PRC and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste to ensure our operations meet the legislation standards and continuously monitor the impact of the landfill on the environment. We reinforce the base and surroundings of the landfills with impermeable clay liner and impermeable geomembrane to prevent soil and groundwater contamination due to leachate migration. Once individual landfill cell is full, we cover it completely with soil layer and plant trees. This is not only to integrate the landfill with the surroundings areas and beautify the environment, the vegetation also prevents soil erosion. During the year, Shenzhen City Li Sai Industrial Development Limited has passed the ISO 9001:2008 Quality Management Systems Certification and the ISO 14001:2004 Environmental Management Systems Certification again and was awarded the certificates accordingly.

Carbon Dioxide Emission Avoided by Type of Renewable Energy ('000 tonnes in equivalent) | Green Electricity Generation ('000 kWh) | Compressed Natural Gas Production ('000 m³) | Landfill Gas Collected ('000 m³)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Sewage Treatment

Target for 2017:

- **Optimize sludge handling technology and ensure sewage treatment is up to standard**
- **Strengthen external environmental protection promotion**

Currently, the Group has 3 sewage treatment projects, located in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan. The following is the achievement of our sewage treatment business in 2017:

Sewage treatment daily capacity is **170,000** tonnes

49,716,092 tonnes of sewage treated

8,143 tonnes of COD reduced

Accumulated achievement since the commissioning of first sewage treatment project in 2007:

368,703,376 tonnes of sewage treated

62,496.5 tonnes of COD reduced

Wastewater in our sewage treatment plants is treated by either Biolak or Cyclic Activated Sludge System ("CASS") technology. We strive to ensure the treated effluent is discharged in accordance with "Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant" (GB 18918-2002) issued by Ministry of Environmental Protection of the PRC. Guangdong's Foshan sewage treatment project has further implemented the "Local Standard of Guangdong Province Discharge Limits of Water Pollutants" (DB44/26-2001) to ensure that all treated effluent would not cause negative impact to ecological balance and human health. Our project companies discharge treated effluent at designated discharge points in accordance with agreements signed with the government and obtained the necessary Pollutant Discharge Permit. In 2017, all treated effluent is discharged either to the ocean or river, amounting 49,716,092 tonnes in total.

We actively explore the possibility of sewage sludge recycling. Yichun Fangke Sewage Treatment Company Limited make use of the solar biological drying technology to process sludge. The sludge is subjected to closed-type high-temperature drying and dosing sterilization during the whole process. At the same time, the harmful gas generated is removed by plasma exchange deodorization technology. Water content of the sludge will be reduced from around 80-85% to around 40%. The dried sludge will be used as crop fertilizers or for soil improvement, while some of the sludge will be burned or sent to the government-designated landfill.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

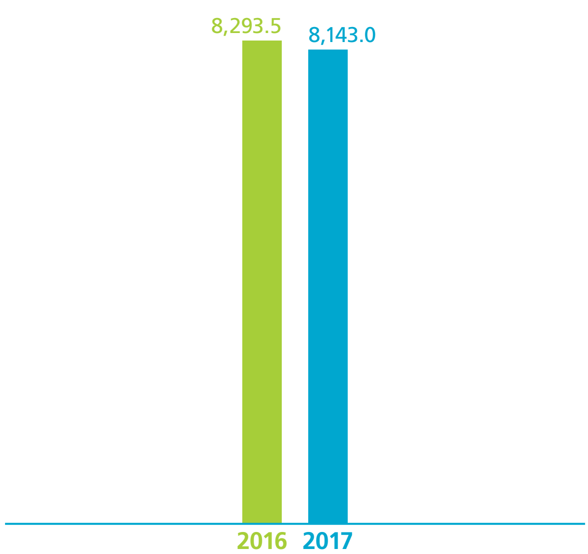
Case Sharing – Mingyue Mountain Project

During the year, Yichun Fangke Sewage Treatment Company Limited successfully signed a build-operate-transfer (BOT) cooperation agreement with the Mingyueshan Hot Spring Administrative Committee to jointly fund and construct the Wentang Sewage Treatment Plant project in phases. The project has a designed capacity of 20,000 tonnes per day in the short term and 30,000-40,000 tonnes per day in the long term. The project will ensure that the high-quality water resources at hot springs will not be polluted, further increase the utilization rate of water resources and enhance the tourism image of the Mingyue Mountains.

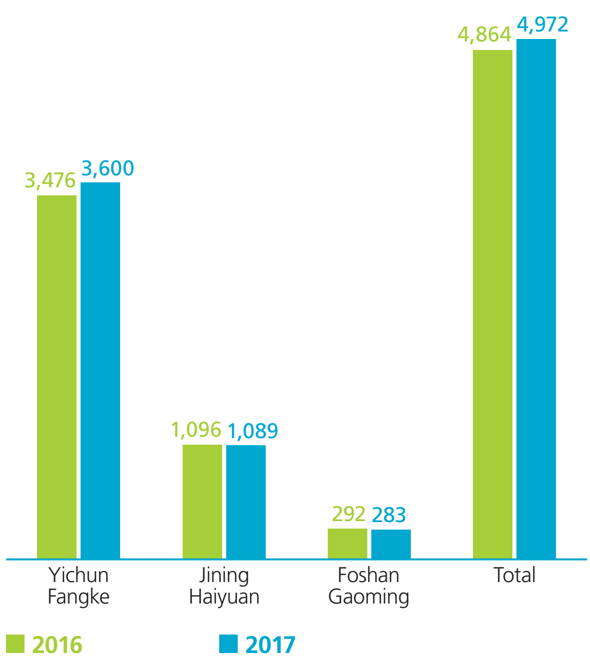
Total volume (tonnes) of treated sludge discharged by disposal method as at 31 December 2017

Incineration	Fertilization	Brick-making	Others	Total
413	4,490	6,586	12,883	24,372

Reduction in COD (Tonnes)



Volume of Sewage Treated by Projects (10,000 Tonnes)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

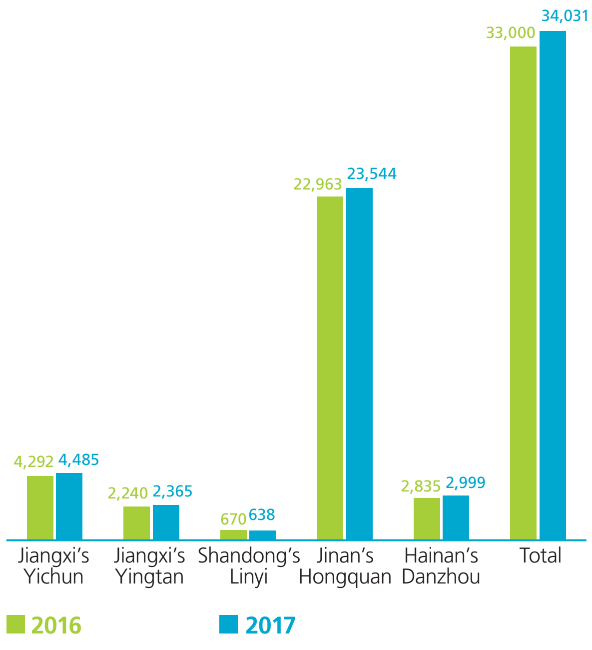
Water Supply

Target for 2017:

- **Improve water quality treatment technology**
- **Provide excellent services**

With water supply services as the core business of the Group, we are devoted to maintaining steady and quality water supply, ensuring water safety and providing better services to residents. In 2017, we have 5 water supply projects, situated in Jiangxi's Yichun, Jiangxi Yingtan, Shandong's Linyi, Jinan's Hongquan and Hainan's Danzhou, supplied a total of 340,311,966 tonnes of water during the year.

Volume of Water Supply by Projects (10,000 tonnes)



Water Safety

We attach great importance to water safety for our water supply projects. In 2017, we will strengthen water quality control from water sources to user terminals, improve water supply protection and pollution risk management, strengthen and improve treatment technologies, and speed up the transformation of the water supply network to ensure that it meets the "Water Quality Standard for Urban Water Supply" (CJ/T 206-2005). In order to ensure water is treated in a hygienic environment, security management measures are stepped up to prevent potential contamination and health-associated risks around sanitary protection zone of water. We strengthen the management and monitoring of hygiene in operation to ensure that the drinking water meets the hygienic standard. Our water supply projects regularly appoint third-party testing centers to carry out analyses on water quality, and some of the water supply projects also set up their own testing centers. Over 30 analysis parameters include color, coliform, odor, chemical oxygen demand, free residual chlorine, lead and etc., while the sampling locations include water intakes, water plant outlet, residents' regular water usage points, and pipe network terminals to ensure representativeness of the sampling points. We provide regular training to enhance staff's health and safety awareness, alertness and operational skills. It is a prerequisite for new operational employees to obtain health certificate. We also offer annual medical checkup for all operational staff to ensure they are physically fit.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Supply Related Construction

According to the "Code for Construction and Acceptance of Water and Sewage Pipeline Works" (GB50268-2008), we have formulated the Project Management System and Project Quality Management System to facilitate the construction sequence, promote coordination between departments to improve work efficiency and ensure the quality of the project. When it comes to the purchase of pipes and fittings, we review the product certification to ensure that the materials conform to national standards such as "Polyethylene (PE) for Water Supply" (GB/T13663-2000) and 304 stainless steel pipes to ensure the health protections to the users. Some of the project companies used stainless steel pipes, pipes and fittings from suppliers that passed ISO 9001:2015 quality management system certification. We also comply with the requirements of the local municipal government for water supply and water management to ensure that the water pressure is up to standard. Engineering maintenance personnel are available 24 hours. Once a leakage is reported, maintenance personnel will rush to the site to perform repair work. We require maintenance personnel to wear a safety helmet and vest while performing pipe repair. At the same time, there are warning signs and guardrails on site to prevent accidents.

Optimizing Customer Service

The Group strives to provide outstanding service for our customers. We have established the customer service guidelines to ensure our service quality. Emergency preparedness and response plan on water pollution, water plant operation, factory blackout, main tube burst, factory flooding period, natural disaster, low temperature in winter and etc., are established to provide our staff detailed guidelines on how to deal with emergent situations, so that the Group would swiftly, accurately, efficiently and safely cope with the accidents, minimizing damages and adverse influences and ensuring the water supply. In addition, some project companies have set up WeChat account to provide water charge payment and inquiry services for the users. Users can also access to corporate information such as the water supply suspension notices, water fee schedules, water quality testing reports and etc., through the WeChat account, which effectively increase the company's transparency and enables the company to communicate with the users.

Project enhancement during the year

- Jinan Hongquan Water Production Co. Ltd implemented technical upgrade for 10 filter pools of Hanhua Water Plant Phase II to improve water quality and optimize operation.
- Yichun Water Industry Co., Ltd underwent upgrade for two communities in Yichun city in response to the termination of water supply owning to low water pressure during peak season.
- Yingtan Water Supply Group Co., Ltd implemented upgrade for Yuan Hai Road main tube water supply construction, optimizing the water network quality.
- Linyi Fenghuang Water Industry Co. Ltd began offering payment via Wechat and AliPay, allowing users to make payment at home.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case Sharing – Warm service won the recognition from customers

The water consumption per water meter of a household of a Yichun Water Industry Co., Limited's user was found anomalous by a meter reader, which was one to two hundred more tonnes than usual. The staff of the pipeline leakage detection department rushed to the site to investigate and succeeded in discovering the crux of hidden water leakage and normal water supply was finally resumed. After the incident, the user presented a flag with "Valuable care. Selfless devotion", to express their gratitude towards our excellent services.

Case Sharing – Repair work during Chinese New Year

On the first day of Chinese New Year in 2017, a concrete pipe on Pingan Road suddenly burst. Due to the sudden drop in water pressure, residents' tap water supply was affected in different extent. The maintenance workers of Yichun Water Industry Co., Limited immediately rushed to the site after receiving the report. After a few hours of excavation, they found that the groundwater pipe wall had a 60- to- 70-cm gap. The maintenance workers quickly removed some of the damaged pipes, then replaced with the new one and reconnected them. At the same time, the sales department staff used sprinklers to distribute water to the residents of Pingan Mingju community. In order to complete the repair and resume the water supply as soon as possible, the maintenance workers and the water distribution staff worked non-stop during the repairing. At about 20:10 in the evening, the water supply was resumed. Local people expressed their gratitude and recognition for the staff of the company who showed their concern to the public even it was festival period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GREEN OPERATION

Target for 2017:

- **Reduce energy and water consumption by improving production process**
- **Establish environmental indicator data collection system to better monitor environmental performance**

Besides protecting the environment through our green business, we put environmental protection into practice across operation. We reduce the impact on the environment by implementing air, noise, waste, and sewage management. Green operation comes to a realization through streamlined management and information technology, supporting green development by self-initiatives.

Air Emission Management

Greenhouse gas emission generated from energy consumption is one of our major sources of air emission. As such, we have carried out a wide range of energy saving initiatives. We optimized electricity supply system and building design, acquired imported energy saving production facilities and equipment, we also promoted energy-saving behaviours such as switching off idle lights and restricting use of air-conditioners, and providing low-carbon and energy saving guideline to our staff. Proper adjustment of sewage treatment facilities was made according to water quality to achieve energy conservation. Yichun Fangke Sewage Treatment Company Limited adopted automatic production control and limited the electricity power density, conserve nearly 1,900,000 kWh energy consumption per year.

In addition, we have a small amount of air emissions from generators and vehicles with different types of engines which generate residual oil-containing exhaust, carbon monoxide, carbon dioxide, and black smoke and exhaust during abnormal circumstances. We appointed environmental monitoring center to measure air emission according to the Monitoring and Measurement Procedure. In case of exceedance, corrective actions will be taken according to the Non-compliance, Correction and Prevention Measures. We conduct daily inspection of the prevention and control of air pollution. Timely correction with record will be done once defects are identified. Fume purification devices are installed in canteens to reduce fume emissions. On the premise of satisfying functional requirements and performance, we try our best to use facilities, raw materials, fuel and etc. which produce minimal amount or concentration of pollutants, reducing emission from the source.

Noise Management

We properly arranged the layout of the factories, dormitory and offices and implement effective acoustic treatment, such as noise reduction for high level noise from ventilation machines and shock absorption for excessive vibration from mechanical equipment and motor vehicles. The noise level of the factories meets the Type II standard of Emission Standard for Industrial Enterprise Noise at Boundary (GB12348-2008).

Waste Management

For general solid waste storage and disposal, we follow the Standards for Pollution Control on The Storage and Disposal Site for General Industrial Solid Wastes(GB18599-2001). We also properly handle recyclable and non-recyclable hazardous wastes in accordance with the National Hazardous Waste Inventory.

For recyclables such as scrap iron, waste fabrics, waste timber, waste paper, etc., we hand them over to qualified recyclers for disposal. We also arrange for the proper disposal of various non-recyclable domestic waste.

For hazardous wastes such as waste oil, we have set up a temporary storage space for liquid waste and a collection facility that meets the requirements of environmental protection to collect and disperse different types of wastes in accordance with the Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001). According to the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Waste and other relevant laws and regulations, the hazardous wastes are handed over to qualified processors for disposal.

We closely monitor the performance of the recyclers by regular visits to make sure that they are qualified to perform their tasks. Our environmental management execution team conducts inspections bi-annually to ascertain waste management system is well developed to reduce waste generation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Domestic Sewage Management

While the domestic sewage generated by sewage treatment project companies is connected to the sewage network and treated by themselves, that of the rest of the project companies is treated by the government. For the sewage we cannot properly treat, it will be handled in accordance with the provisions to the designated processing agency. We strive to eschew accidents, and emergency handling procedures have been developed to mitigate in case of sewage leakage and to minimize the impact of the accident to the environment. We also regularly monitor the effluent discharge targets with the help of the city's environmental monitoring center.

Water Conservation Measures

We are highly concerned about the water consumption in our project companies. We installed low-flow water-saving devices and implemented water-saving policies to reduce water consumption. Wastewater is recycled for vegetation watering and road washing. We also adopt water-saving technology and equipment and phase out old equipment with high water consumption, target to reduce water wastage. Yichun Fangke Sewage Treatment Company Limited make use of the treated water to wash the filter in the sludge dewatering machine, amount to a 183,600 m^3 water consumption reduction per year.

Case Sharing – Jinan Hongquan Water Production Co. Ltd upgrade project

During the year, Jinan Hongquan Water Production Co. Ltd implemented upgrade for 10 filter tanks of Hanhua Water Plant Phase II. The backwashing effect significantly increased as the upgraded filter tanks adopted the gas water backwashing technology. Backwashing period per tank is also lengthened. At the same time, backwashing water consumption also substantially reduced. Compared with original technology, operation time of the backwashing time reduced 2 hours per day, which contributed to 270 kWh daily energy reduction and 98,550 kWh annual energy reduction. Calculated by current electricity charge, this implies a RMB63,800 reduction in electricity expenses. In addition, backwashing water consumption can be reduced. Estimated by a backwashing water consumption of 1,260 m^3/hour, daily and annual reduction in water consumption would be 2,520 m^3 and 919,800 m^3 respectively, saving RMB607,068 per year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Key Environmental Data

Indicator[1,2]	Unit	Total
Total Greenhouse Gas (GHG) Emissions (Scope 1 & 2)	Tonnes of CO_2 equivalent	20,815.97
Direct Emissions (Scope 1)	Tonnes of CO_2 equivalent	552.48
Indirect Emissions (Scope 2)	Tonnes of CO_2 equivalent	20,287.29
GHG Removal (Tree Plantation) (Scope 1)	Tonnes of CO_2 equivalent	23.81
GHG Emissions (Biogenic)[3]	Tonnes of CO_2 equivalent	77,886.17
Total GHG Emissions Intensity (Scope 1 & 2)[4]	kg of CO_2 equivalent/ thousand HKD	56.16
Nitrogen Oxides (NOx)	kg	107,070.70
Sulphur Oxides (SOx)	kg	37,760.83
Particulate Matter (PM)	kg	9,053.66
Total Energy Consumption	kWh	223,461,869.65
Purchased Electricity	kWh	35,336,069.82
Gasoline	kWh	1,516,047.26
Diesel	kWh	616,060.57
Landfill gas	kWh	185,993,692.00
Total Energy Consumption Intensity	kWh/thousand HKD	602.85
Total Water Consumption	m^3	85,414.19
Total Water Consumption Intensity	m^3/thousand HKD	0.23
Total Hazardous Waste	Tonnes	588.55
Waste Oil	Tonnes	59.75
Waste Desulphurization Agent	Tonnes	115.80
Sludge	Tonnes	413.00
Total Hazardous Waste Intensity	kg/thousand HKD	1.59
Total Non-Hazardous Waste	Tonnes	1,793.15
Paper	Tonnes	3.02
Plastic	Tonnes	0.30
Food Waste	Tonnes	10.97
Other General Refuse	Tonnes	1,778.86
Total Non-hazardous Waste Intensity	kg/thousand HKD	4.84

1. Reporting scope includes 11 project companies.

2. Due to our business nature, no packaging material have been used.

3. Biogenic emission represents GHG emission from landfill gas electricity generation.

4. Total GHG emission intensity (Scope 1 and 2) excludes biogenic emission. In accordance with The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, emissions data for direct GHG emissions from combustion of biomass or biofuels should be reported separately.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAFF CARE

Target for 2017:

- **Strengthen team objective management system, staff performance and compensation management system as well as production management system**
- **Improve the production safety system**
- **Strengthen the building of technical team**

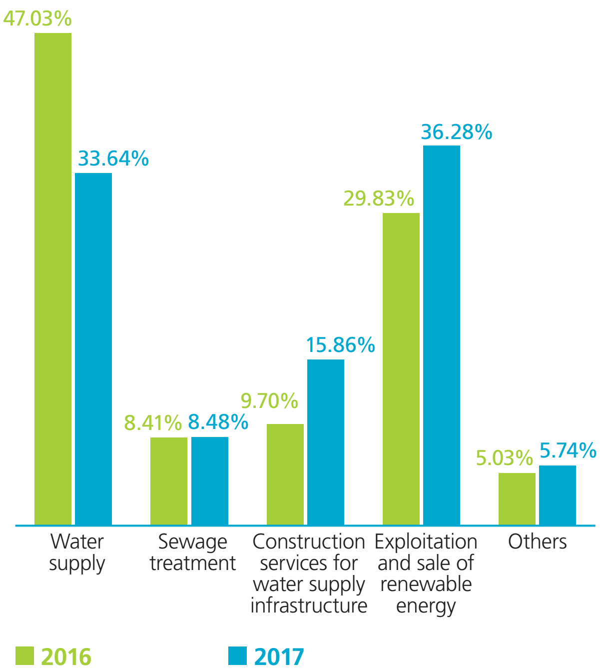
Talent Acquisition and Retention

We regard human resources as the most valuable assets and attach importance to talent acquisition and retention. We recruit talents through newspaper, notice board, recruitment agency, recruitment website, internal promotion or referral to support our business growth.

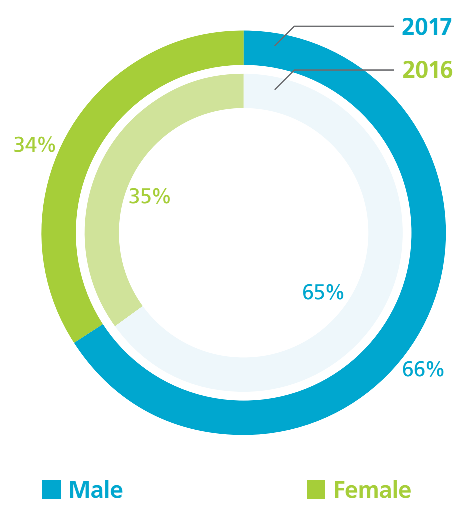
We ensure all potential applicants and existing employees receive equal opportunity and fair treatment during recruitment, salary review, benefits, promotion and termination irrespective of their gender, nationality, age, religion, marital status, sexual orientation, disability and etc. We also offer internal transfer opportunities to allow our staff to acquire new experience, skills and knowledge from different roles.

As of 31st December 2017, there are 1,097 employees in total, with 369 female employees, comprising 34% of total employees. All of our employees are located in China (including Hong Kong)

Distribution of employee by business segment

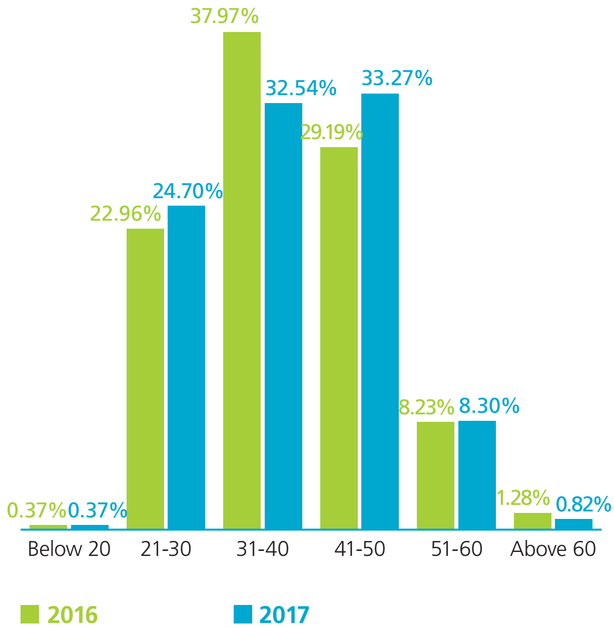


Distribution of employee by gender

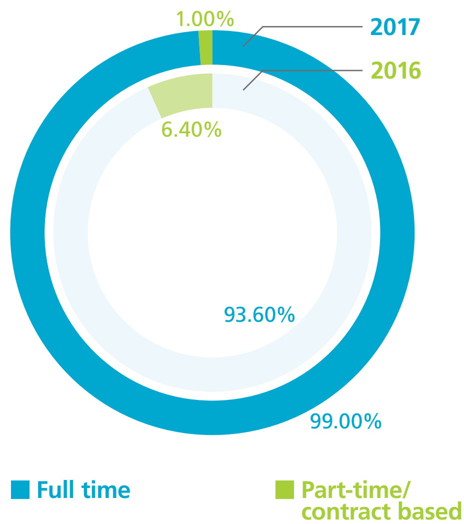


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

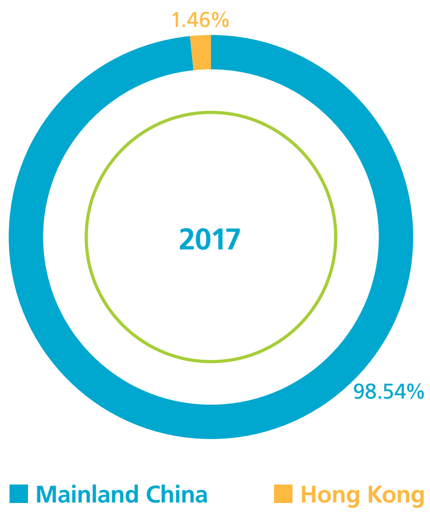
Distribution of employee by age group



Distribution of employee by employee category

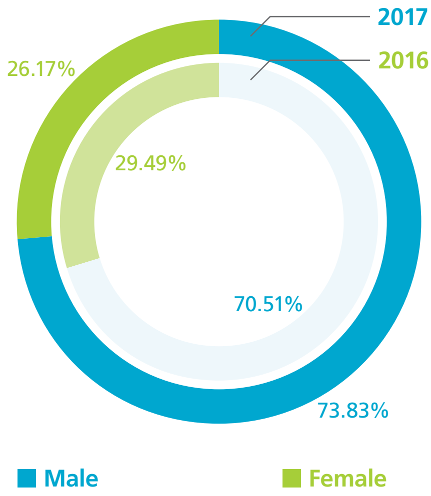


Distribution of employee by region

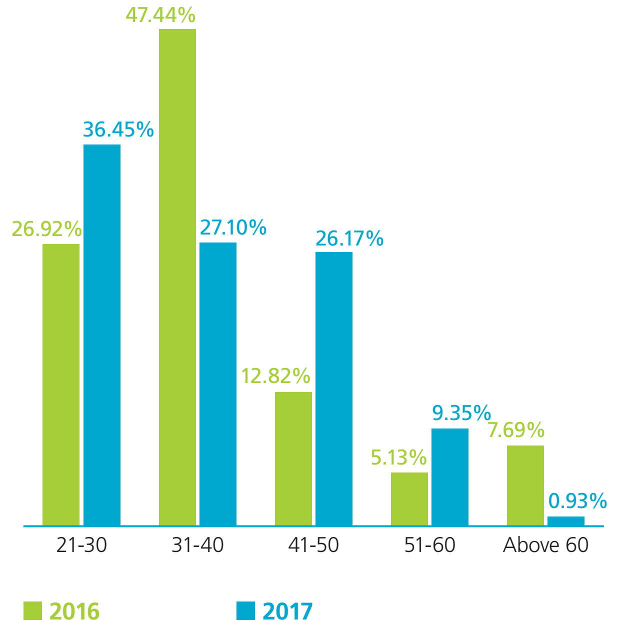


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

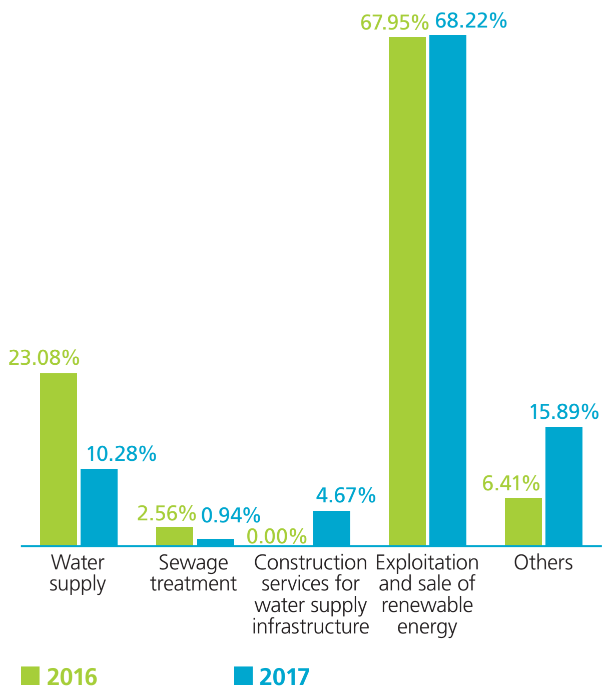
Staff turnover by gender



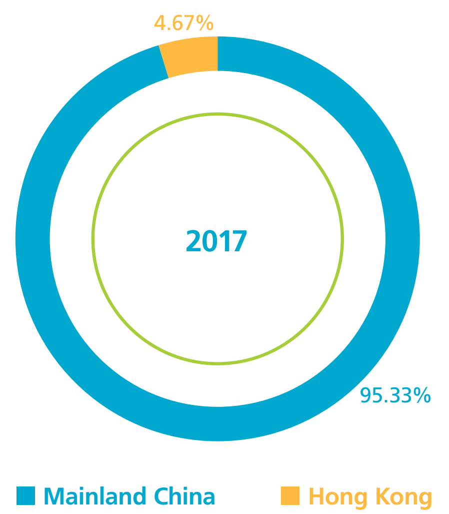
Staff turnover by age group



Staff turnover by business segment



Staff turnover by region



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Protecting Our Female Staff

We established Protection Policy for Female Staff to safeguard their physical and mental health. Our review mechanism is in place to ensure that female employees would not be terminated due to pregnancy, maternity leave, breastfeeding. Our female employees are entitled to a basic wage and they would not be discriminated during salary review, promotion and work assignment. We offer necessary arrangement for pregnant staff to avoid duties associated with health risk.

Occupational Health and Safety

Production safety is of fundamental importance to an enterprise. Not only does it impact the personal interests of employees, it also affects our corporate image. We provide safety training to our staff from time to time and expect them to perform the safety duties consciously. We comply with the Fire Prevention Law of the PRC, Law of the PRC on Work Safety, Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Occupational Diseases, Regulations on the Safety Administration of Hazardous Chemicals, Provisions on the Supervision and Administration of Occupational Health at Work Sites and other applicable national laws and regulations. We implement safety responsibility system to provide our employees with a safe and healthy working environment.

Our business operations involve dangerous working processes such as use of fire, work at height, cutting, noise, hazardous gases, flammable and explosive materials. Therefore, to ensure safety production, we have set up an operational safety team at each project company to be responsible for provision of safety production training as well as development and monitoring of safety production procedures.

The below outlines some of our safety measures:

- Smoking and use of fire in the operation or storage area of flammable and explosive materials are strictly forbidden;
- Inspection is carried out regularly to eliminate risk of fire;
- Sufficient protective gear such as insulated gloves and shoes, dust/gas mask and earplugs etc. are provided to staff with regular reminders on proper usage;
- Supervision is required for operations such as flaming and welding;
- Employees should receive adequate training. For instance, in some project companies, new employees are required to receive 3-level safety training and pass relevant tests to obtain safety certificate;
- Specialists are required to hold the special work certificate;
- Safety signs are clearly labeled in workplace;
- Employees are entitled to body check at least biennially;
- Emergency drills are performed regularly;
- Safety inspections are conducted weekly, with remediation in a timely manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For emergency management, emergency command teams are formed to develop comprehensive emergency preparedness and response plans, including chemical leakage, electric shock, gas accident, equipment operation accidents, natural disasters, major casualties, suspension of power supply, fire, serious employee-involved accidents, environmental pollution and other accidents. We provide our employees with detailed guidelines and procedures to improve their emergency handling capabilities such as escape and first aid knowledge. At the same time, employees are sent to fire services and hospital departments to receive external training.

Furthermore, we carry out food test for canteens regularly, ensure our chefs are in good health condition and keep our ingredients fresh and safe. There are also regular large-scale cleanings for canteens and dormitories.

We have formulated the Infections Disease Management Procedures, Prevention of Blood Contact with Infections Diseases and Pest Control Procedures etc., to protect the Health and food safety of the employees.

Shenzhen City Li Sai Industrial Development Limited – Integrated fire emergency drill

Jinan Hongquan Water Production Co. Ltd - Emergency evacuation drill

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case Sharing – New China Water First Safety Production Month

In order to strengthen safety awareness, solid the foundation of safe production, and improve the safety protection skills of all employees, 23 project companies under New China Water have launched the first "Safety Production Month" in 2017, which lasted for one month. Our aim is to foster a safety-first culture, prevent the occurrence of various safety accidents, and achieve our annual safety goal. The activity of the safety month is divided into three phases, including development phase, implementation phase and evaluation phase. A combination of training and competition was adopted in the whole activity. The training contents covered production safety operation regulations, production safety accident prevention and emergency measures, fire safety knowledge, education on typical case of safety production accident, production site safety risk investigation, safety accident self-rescue and mutual rescue knowledge. During the evaluation stage, evaluation is conducted according to the progress of each project company's activity organization and the rationalization of proposal submission, in order to select outstanding teams and individuals for recognition and rewards.

Through the activities organized during "Safety Production Month", it has enhanced the sense of responsibility of management personnel at all levels, strengthened employees' awareness of safety work, collected reasonable suggestions for the safe production of the company, improved the safety management mechanism, raised the quality level of safety production and the capabilities of accident prevention, which further strengthened the management of safety basic management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Talent Training

Training is a two-way communication between the company and employees as well as between the management and employees. Training enhances a corporate's cohesion and competitive advantage. At the same time, training strengthens trainer himself and the trainee's overall quality and occupational skills, benefiting all members of the company.

We organize a wide variety of trainings to meet the demand for professional knowledge and skills for different operating businesses. To make it easier and more flexible to attend the training courses, some project companies have set up online schools and upload training videos for employees to allow them to watch those related to their positions and duties anytime and anywhere. In response to the production needs, companies send outstanding employees to various vocational training institutions to attend professional training or invite external professional trainers to train employees to enhance their technical standards.

Average training hours by gender

Average training hours by employment category

Case Sharing – Elite training

In order to enhance the integrated management skills of the management and comprehensively improve the quality of corporate talents to meet the strategic needs, the New China Water Fourth Quarter Project Companies Elite Training was held at our talent training center in December 2017. A total of 47 employees from 21 project companies participated in the training. The training was mainly based on the interactive interaction between lecturers and elites. Elites not only shared their own working experience, but also discussed the problems encountered during work and the corresponding solutions. The trainings covered the topics relating to landfill gas regulations and control methods, electromechanical equipment management, operating details, maintenance, safety management, and landfill gas data collection. Everyone benefited from the trainings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Two-way Communication

We value communication with our employees and actively adopt an open and cooperative attitude to maintain mutual trust. We keep our staff abreast of the latest news about management policy and operational strategy by means of email, meeting and announcement. Meanwhile, we try to understand their views and thoughts through face-to-face discussion and survey. We publish the latest development of the Group and each project company, company policies and industry news through our company magazine, "Sound of Water", aiming to promote internal communication. Excellent poetry, prose and essays written by employees are also selected and published in the magazine, providing a platform for sharing their working experience. Every year, the "Sound of Water" seminar will be held, with the aim to maintain the consistency of the corporate culture of various project companies and the Group, improving the Group's cohesiveness and establishing the credibility of the Group.

Staff Benefits

We respect the rights and interests of employees and strictly comply with the laws and regulations including the Labour Law of the PRC ("the Labour Law"), the Labour Contract Law of the PRC, the Regulations on the Implementation of the Employment Contract Law of the PRC and Law of the PRC on the Protection of Rights and Interests of Women and etc. We do not force employees to work overtime. If overtime is unavoidable because of production needs, we require the maximum working hours per week should not exceed 60 hours while monthly overtime should not exceed 36 hours, and our employees enjoy 24 hours off for every 6 consecutive days of work. We also offer compensation for overtime work in accordance with the provisions of the Labour Law.

In 2017, we strengthened the remuneration and performance appraisal system to review and evaluate the performance and development of our employees. In addition to statutory employee benefits for full time staff (including social security scheme and leaves for paternity, funeral and sickness), our project companies offer different fringe benefits, for instance, staff dormitory, festival bonus, travel allowance, communication allowance and working meal. We also purchase insurance for our employee and their family members for further protection.

We emphasize gender and racial equality in our human resources policy and forbid child and force labor. We protect our employees from over-work and strictly follow the Regulation on Paid Annual Leave of the Employees. We also arrange regular body check for all employees and tailored medical checkup for staff at particular positions. We continuously improve employee working environment to ensure their occupational health.

We established the Complaint or Recommendation Procedure to enable staff to make complaints and allow them to resolve disputes or misunderstandings in a friendly manner. Employees may file complaints to staff union through suggestion box, telephone or in person. The union protects the privacy of the complainant's identity and the complaint content would not be disclosed without consent.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Work-life Balance

We understand the importance of work-life balance. Therefore, we organize annual dinner every year and regularly organize a wide variety of activities such as sports day, sports competition, outdoor activities, etc., to enable our employees to relax, interact and develop team spirit. The following are some major events held throughout the year:

The Group's Arts Festival

The Group's Dinner for the Chinese New Year

The 2nd Staff Sports Day of Linyi Fenghuang Water Industry Co. Ltd

The 1st Lisai Cup Table Tennis Competition organized Shenzhen City Li Sai Industrial Development Limited

Sharing Achievement with Staff

In recognition of outstanding staff, the Group arranged award presentation session in the annual dinner. Various awards including "Award of Enterprise of the Year", "Group Management Enterprise Gold/Silver Award", "Best Enterprise Management Award", "Best Service Award", "Best Contribution Award", and "Best Advice Award" to openly recognized the project companies and employees with remarkable performance. In addition, some project companies gave recognition to outstanding staff at their annual dinner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY CONTRIBUTION

Target for 2017:
- **Encourage employees to actively participate in community activities**
- **Promote environmental protection and foster environmental protection education**
- **Organize charitable activities to benefit the community**

In order to fulfill corporate social responsibility, the Group not only provides quality services, but is also devoted to serve the community. We play an active role in various programs and activities, striving to be a positive force to the community, thereby promoting community development, advocating a spirit of self-improvement and promoting long-term economic development.

The following are our major community contributions throughout the year:

Volunteer Work

- Led by the management, **Swan (Huizhou) Investment Company Limited** visited the poor in the Dahedong Village. They also gave donation and extended sincere greetings to 24 households.
- **Linyi Fenghuang Water Industry Co. Ltd** participated in Linyi City Creating a Civilized City volunteer service activities.

Environmental Protection

- **Yichun Fangke Sewage Treatment Company Limited** organized a series of environmental protection leifeng volunteer work activities with the topic "Be an Environmental Protector to Build a Green Home" and invited around 30 secondary school students to pay a visit to the sewage treatment plant.
- **Yichun Fangke Sewage Treatment Company Limited** participated in the "Energy saving begins with me. Share the benefits of going green." campaign. We promoted a low-carbon lifestyle that saves energy, water and resources in daily life through seminars, exhibitions and games.

Charitable Donations

- **Hainan Danzhou New China Water Environmental Technology Limited** donated over RMB30,000 to an employee with cancer.
- **Yichun Water Industry Co., Ltd** actively participated in the "Lighting Up Aspirations" campaign to donate bicycles, electric fans and school supplies to impoverished children. While electric fans, mats, thermos and medicines are donated to the single elderly, hearing aids are also donated to elderlies to suffer from poor hearing.
- **Yichun Water Industry Co., Ltd** organized the "Dedicate Love. Serve the Public. Water Supply Party Members in Action" campaign to organize activities including blood donation, books, toys and food donation for the orphans and free repair of water supply facilities for those in need.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HKEX ESG REPORTING GUIDE CONTENT INDEX TABLE

Indicator		Chapter/Disclosure	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Green Business & Green Operation	81-90
KPI A1.1	The types of emissions and respective emissions data.	Green Business & Green Operation	81-90
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and intensity.	Green Business & Green Operation	81-90
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Green Business & Green Operation	81-90
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	Green Operation	88-90
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Green Business & Green Operation	81-90
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Green Business & Green Operation	81-90
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		Green Business & Green Operation	81-90
KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity.	Green Operation	88-90
KPI A2.2	Water consumption in total and intensity.	Green Operation	88-90
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Green Operation	88-90
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Green Operation	88-90
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	Not applicable to our business.	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimizing the issuer's significant impact on the environment and natural resources.		Green Business	81-87
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Green Business	81-87

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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<tr><th colspan="2">Indicator</th><th>Chapter/Disclosure</th><th>Page</th></tr>
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<tr><td colspan="4"><u>Employment and Labour Practices</u></td></tr>
<tr><td colspan="4">Aspect B1: Employment</td></tr>
<tr><td colspan="2">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</td><td>Staff Care</td><td>91-99</td></tr>
<tr><td>KPI B1.1</td><td>Total workforce by gender, employment type, age group and geographical region.</td><td>Talent Acquisition and Retention</td><td>91-93</td></tr>
<tr><td>KPI B1.2</td><td>Employee turnover rate by gender, age group and geographical region.</td><td>Talent Acquisition and Retention</td><td>91-93</td></tr>
<tr><td colspan="4">Aspect B2: Health and Safety</td></tr>
<tr><td colspan="2">General Disclosure

Information on:

(a) the policies; and

(b) compliance with relevant laws and regulations that have a significant impact on the issuer

relating to providing a safe working environment and protecting employees from occupational hazards.</td><td>Occupational Health and Safety</td><td>94-96</td></tr>
<tr><td>KPI B2.1</td><td>Number and rate of work-related fatalities.</td><td>Not disclosed during the Reporting Period.</td><td>N/A</td></tr>
<tr><td>KPI B2.2</td><td>Lost days due to work injury.</td><td>Not disclosed during the Reporting Period.</td><td>N/A</td></tr>
<tr><td>KPI B2.3</td><td>Description of occupational health and safety measures adopted, how they are implemented and monitored.</td><td>Occupational Health and Safety</td><td>94-96</td></tr>
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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Chapter/Disclosure	Page
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Talent Training	97
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed during the Reporting Period.	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Talent Training	97
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Our "Recruitment Management Policy" comply to the national's "Prohibition of the use of Child Labour Regulation" and explicitly prohibit the use of those who are under the age of 16. In 2017, there is no reported case of the use of child labour.	N/A
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	We review the "Recruitment Management Policy" annually to avoid the use of child labour and forced labour.	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	We impose punishment to those who violate the company's rule of using child labour and forced labour. We also set up a penal to ensure the victims are adequately protected.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Chapter/Disclosure	Page
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supply Chain Management	80
KPI B5.1	Number of suppliers by geographical region.	Not disclosed during the Reporting Period.	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Not disclosed during the Reporting Period.	N/A
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Health and Safety of products and services Water Supply Advertising, labelling and privacy We comply with relevant laws to keep users' privacy confidential. In 2017, there is no reported complain case concerning advertising, labelling and privacy.	85-87 N/A
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable to our business.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed during the Reporting Period.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not disclosed during the Reporting Period.	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	Quality Assurance Process Green Business Recall Procedures Not applicable to our business.	81-87 N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Not disclosed during the Reporting Period.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Chapter/Disclosure	Page
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Corporate Governance There is no reported case of violation of the relevant laws and regulations.	80
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	There is no occurred or on-going case of legal cases regarding corrupt practices brought against us or our employees during 2017.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Corporate Governance Supply Chain Management	80
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Community Contribution	100
KPI B8.1	Focus areas of contribution.	Not disclosed during the Reporting Period.	N/A
KPI B8.2	Resources contributed to the focus area.	Not disclosed during the Reporting Period.	N/A

INDEPENDENT AUDITOR'S REPORT

Crowe Horwath™

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

CHINA WATER INDUSTRY GROUP LIMITED
To the Shareholders of China Water Industry Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 112 to 248, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition For water customers with water meters, the amount recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. This is a key judgement because the estimated usage is based upon historical data and assumptions around consumption patterns.	We have reviewed the design and implementation of management's controls around this risk; We have challenged the key assumptions and estimates made by management in recognising revenue. We performed detailed analytical procedures by comparing revenue balance for the year against the total sales value of units supplied at the year ended. We also assessed the adequacy of the Group's disclosures of its revenue recognition and other related disclosures.
Impairment assessment The Group has HK$671,738,000 of property, plant and equipment, HK$578,286,000 of operating concession intangible assets; and HK$296,655,000 of other intangible assets. Their recoverable amount is based on an assessment of the greater of its fair value less cost of disposal and its value in use. Value in use is calculated as the net present value of estimated future cash flows. The Group's assessment of impairment is a judgemental process which requires estimates concerning the estimated future cash flows and associated discount and growth rate based on management's view of future business prospects.	We assessed and challenged the impairment analysis prepared by the board of directors as outlined below:– With regard to the overall impairment assessments performed by the board of directors, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We also reviewed the assets not assessed by management for impairment indicators and no indicators were identified. We assessed the qualification independence and reputation of the independent external valuation expert. We evaluated the reasonableness of the management cash flow forecasts by comparing the assumptions made to internal and external data. We tested these assumptions by reference to third party documentation where available.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
	We challenged the key assumptions used in each impairment model and performed sensitivity analysis around key drivers of cash flow forecasts, including growth rates, operating costs, and expected life of assets. We challenged the discount rate used to determine the present value by assessing the cost of capital for the Group and comparable organizations and considered them to be reasonable. Furthermore, we obtained evidence to assess adequate historical accuracy in management's forecasting process. Based on our analysis and the analysis performed by the valuation experts, we did not identify any material issues with the valuation of the assets and goodwill, the accuracy of the impairment and the disclosures in the financial statements.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

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.

The directors are assisted by the audit committee in discharging their responsibilities of overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagements, 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

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

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Alvin Yeung Sik Hung.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2018

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	7	**701,524**	550,646
Cost of sales		**(432,685)**	(326,664)
Gross profit		**268,839**	223,982
Other operating income and expenses	9	**97,758**	76,566
Reversal of impairment loss recognised on trade and other receivables	26	**95**	70
Selling and distribution expenses		**(34,252)**	(29,918)
Administrative expenses		**(188,408)**	(169,819)
Finance costs	10	**(33,780)**	(24,083)
Change in fair value of investment properties	20	**1,223**	1,613
Net (loss)/gain on financial assets at fair value through profit or loss		**(40,733)**	22,304
Net (loss)/gain on disposal of available-for-sale investments		**(12,238)**	35,699
Impairment loss recognised on:			
concession intangible assets	18	**(1,512)**	–
goodwill	21	**(3,824)**	–
available-for-sale investments	22	**(1,774)**	(9,704)
trade and other receivables	26	**(2,334)**	(481)
Share loss of associates	24	**(3,955)**	(1,412)
Profit before taxation		**45,105**	124,817
Income tax	11	**(34,203)**	(39,915)
Profit for the year	12	**10,902**	84,902
Attributable to:			
Owners of the Company		**(49,111)**	31,263
Non-controlling interests		**60,013**	53,639
		10,902	84,902
(Loss)/Earnings per share (HK cents):	15		
Basic		**(3.08)**	1.96
Diluted		**(3.08)**	1.96

The notes on pages 121 to 248 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year		**10,902**	84,902
Other comprehensive income/(loss) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchanges difference on translation of financial statements of foreign operations			
Exchange difference arising during the year		**138,587**	(86,865)
		138,587	(86,865)
Available-for-sale investments:			
Net loss arising on revaluation of available-for-sale investments during the year		**(1,368)**	(13,400)
Reclassification upon impairment		**1,774**	9,704
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**(8,894)**	(10,455)
		(8,488)	(14,151)
Share of other comprehensive loss of associates	24	**(8,570)**	(1,714)
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of investment property upon transfer from property, plant and equipment		**1,754**	4,785
Deferred tax liability arising on gain on revaluation of properties		**(439)**	(1,196)
		1,315	3,589
Other comprehensive income/(loss) for the year, net of income tax		**122,844**	(99,141)
Total comprehensive income/(loss) for the year		**133,746**	(14,239)
Attributable to:			
Owners of the Company		**41,547**	(46,975)
Non-controlling interests		**92,199**	32,736
		133,746	(14,239)

The notes on pages 121 to 248 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	**2017** HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**671,738**	454,530
Deposits paid for acquisition of property, plant and equipment		**17,021**	30,583
Deposits paid for acquisition of subsidiaries		**31,218**	29,769
Prepaid lease payments	17	**128,517**	104,030
Operating concessions	18	**578,286**	483,794
Receivables under service concession arrangements	18	**28,948**	31,493
Investment properties	20	**46,792**	32,510
Other non-current assets	19	**20,832**	19,369
Other intangible assets	21	**296,655**	189,821
Available-for-sale investments	22	**18,601**	90,437
Interests in associates	24	**59,009**	71,534
Deferred tax assets	37	**10,208**	9,342
		1,907,825	1,547,212
Current assets			
Inventories	25	**193,757**	184,589
Receivables under service concession arrangements	18	**4,923**	5,122
Financial assets at fair value through profit or loss	22	**40,576**	232,808
Trade and other receivables	26	**631,983**	286,237
Prepaid lease payments	17	**11,064**	1,645
Amounts due from customers for contract works	29	**19,276**	4,982
Cash held by financial institutions	27	**353**	341
Bank balances and cash	27	**317,796**	489,896
		1,219,728	1,205,620
Current liabilities			
Overdraft held at financial institutions	27	**20,266**	31,058
Trade and other payables	28	**219,804**	256,255
Amounts due to customers for contract works	29	**214,781**	155,781
Bank borrowings	30	**70,833**	48,729
Other loans	31	**253,586**	295,265
Obligations under finance leases	32	**45,667**	10,444
Amounts due to non-controlling shareholders of subsidiaries	33	**132**	32,808
Loans from associates	34	**3,148**	2,927
Tax payables		**23,269**	27,126
		851,486	860,393
Net current assets		**368,242**	345,227
Total assets less current liabilities		**2,276,067**	1,892,439

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	*35*	**798,270**	798,270
Share premium and reserves		**507,129**	465,582
Equity attributable to owners of the Company		**1,305,399**	1,263,852
Non-controlling interests		**514,237**	374,355
TOTAL EQUITY		**1,819,636**	1,638,207
Non-current liabilities			
Bank borrowings	*30*	**96,267**	74,245
Other loans	*31*	**188,690**	64,947
Obligations under finance leases	*32*	**56,597**	20,320
Government grants	*36*	**34,803**	29,550
Deferred tax liabilities	*37*	**80,074**	65,170
		456,431	254,232
		2,276,067	1,892,439

Approved and authorised for issue by the board of directors on 28 March 2018:

Lin Yue Hui
Director

Liu Feng
Director

The notes on pages 121 to 248 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000 (note 35(b))	Share premium HK$'000 (note 35(c))	Revaluation reserve HK$'000 (note 35(c))	Translation reserve HK$'000 (note 35(c))	Reserve fund HK$'000 (note 35(c))	Investment revaluation reserve HK$'000 (note 35(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	798,270	954,318	–	(9,671)	29,685	23,044	(484,819)	1,310,827	341,732	1,652,559
Changes in equity for 2016:										
Profit for the year	–	–	–	–	–	–	31,263	31,263	53,639	84,902
Other comprehensive income /(loss) for the year:										
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	2,440	–	–	–	–	2,440	2,345	4,785
Deferred tax liability arising from revaluation on investment properties	–	–	(610)	–	–	–	–	(610)	(586)	(1,196)
Exchange difference arising on translation	–	–	(82)	(64,121)	–	–	–	(64,203)	(22,662)	(86,865)
Share of other comprehensive loss of associates	–	–	–	(1,714)	–	–	–	(1,714)	–	(1,714)
Fair value loss on available-for-sale investments	–	–	–	–	–	(13,400)	–	(13,400)	–	(13,400)
Reclassification on impairment of available-for-sale investments	–	–	–	–	–	9,704	–	9,704	–	9,704
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(10,455)	–	(10,455)	–	(10,455)
Total comprehensive income/(loss) for the year	–	–	1,748	(65,835)	–	(14,151)	31,263	(46,975)	32,736	(14,239)
Capital contribution from non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,500**	**1,500**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,613)**	**(1,613)**
Transfers to reserve funds	**–**	**–**	**–**	**–**	**12,529**	**–**	**(12,529)**	**–**	**–**	**–**
At 31 December 2016	798,270	954,318	1,748	(75,506)	42,214	8,893	(466,085)	1,263,852	374,355	1,638,207

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000 (note 35(b))	Share premium HK$'000 (note 35(c))	Revaluation reserve HK$'000 (note 35(c))	Translation reserve HK$'000 (note 35(c))	Reserve fund HK$'000 (note 35(c))	Investment revaluation reserve HK$'000 (note 35(c))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2017	798,270	954,318	1,748	(75,506)	42,214	8,893	(466,085)	1,263,852	374,355	1,638,207
Changes in equity for 2017:										
(Loss)/profit for the year	–	–	–	–	–	–	(49,111)	(49,111)	60,013	10,902
Other comprehensive income /(loss) for the year:										
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	895	–	–	–	–	895	859	1,754
Deferred tax liability arising from revaluation on investment properties	–	–	(224)	–	–	–	–	(224)	(215)	(439)
Exchange difference arising on translation	–	–	1	107,044	–	–	–	107,045	31,542	138,587
Share of other comprehensive loss of associates	–	–	–	(8,570)	–	–	–	(8,570)	–	(8,570)
Fair value loss on available-for-sale investments	–	–	–	–	–	(1,368)	–	(1,368)	–	(1,368)
Reclassification on impairment of available-for-sale investments	–	–	–	–	–	1,774	–	1,774	–	1,774
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(8,894)	–	(8,894)	–	(8,894)
Total comprehensive income/(loss) for the year	–	–	672	98,474	–	(8,488)	(49,111)	41,547	92,199	133,746
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	(11,793)	(11,793)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	1,499	1,499
Acquisition through business combination *(note 38)*	–	–	–	–	–	–	–	–	57,977	57,977
Transfers to reserve funds	–	–	–	–	13,833	–	(13,833)	–	–	–
At 31 December 2017	798,270	954,318	2,420	22,968	56,047	405	(529,029)	1,305,399	514,237	1,819,636

The notes on pages 121 to 248 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Profit before taxation	**45,105**	124,817
Adjustments for:		
Depreciation of property, plant and equipment	**56,826**	32,667
Amortisation of prepaid lease payments	**1,720**	973
Amortisation of concession intangible assets	**29,309**	23,564
Amortisation of other intangible assets	**31,005**	17,874
Impairment loss recognised on:		
– concession intangible assets	**1,512**	–
– goodwill	**3,824**	–
– available-for-sale investments	**1,774**	9,704
– trade and other receivables	**2,334**	481
Reversal of impairment loss recognised on trade and other receivables	**(95)**	(70)
Change in fair value of investment properties	**(1,223)**	(1,613)
Finance costs	**33,780**	24,083
Interest income	**(22,154)**	(19,873)
Government grant income	**(11,978)**	(10,949)
(Gain)/loss on disposal of property, plant and equipment and prepaid land lease	**(66)**	152
Net loss/(gain) on disposal of available-for-sale investments	**12,238**	(35,699)
Net loss/(gain) on financial assets at fair value through profit or loss	**40,733**	(22,304)
Gain on bargain purchase arising from acquisition of a subsidiary	**–**	(1,808)
Share of loss of associates	**3,955**	1,412
Changes in working capital:		
Decrease in inventories	**4,946**	20,146
(Increase)/decrease in trade and other receivables	**(9,618)**	13,798
Decrease in receivables under services concession arrangements	**2,744**	8,643
(Increase)/decrease in amounts due from customers for contract works	**(14,294)**	8,481
Decrease in trade and other payables	**(102,672)**	(63,151)
Increase in amounts due to customers for contract works	**59,000**	43,601
Cash generated from operations	**168,705**	174,929
Income taxes paid	**(38,784)**	(39,053)
Net cash generated from operating activities	**129,921**	135,876

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Investing activities		
Purchase of property, plant and equipment	**(197,036)**	(156,827)
Deposits paid for acquisition of property, plant and equipment	**(17,021)**	(30,583)
Payments for acquisition of lease payment	**(27,209)**	(85,093)
Proceeds from disposal of property, plant and equipment and prepaid lease payment	**2,713**	4,420
Acquisition of operating concessions	**(48,531)**	(24,663)
Acquisition of other intangible assets	**(1,097)**	(32)
Purchase of available-for-sale investments	**(201,555)**	(26,171)
Proceeds from disposal of available-for-sale investments	**250,891**	88,103
Purchase of financial assets at fair value through profit or loss	**(162,735)**	(122,566)
Proceeds from disposal of financial assets at fair value through profit or loss	**215,183**	168,124
Acquisition of subsidiaries, net of cash acquired	**(36,782)**	(77,366)
Deposits paid for acquisition of subsidiaries	**(1,449)**	(30,610)
Interest received	**13,608**	19,873
Loan to third parties	**(178,142)**	–
Repayment of loan from third parties	**103,700**	52,377
Deposit paid for bidding land	**(115,430)**	–
Settlement of consideration payables	**(22,251)**	–
Government grants received	**13,204**	19,447
Net cash used in investing activities	**(409,939)**	(201,567)
Financing activities		
Proceeds from new bank borrowings and other loans	**388,210**	477,781
Repayment of bank borrowings and other loans	**(295,955)**	(392,112)
(Repayments to)/advanced from non-controlling shareholders	**(32,676)**	4,905
Capital contribution from non-controlling shareholders	**1,499**	1,500
Acquisition of non-controlling interests	**(11,793)**	–
Proceed from obligations of finance leases	**92,697**	37,321
Repayments of finance leases	**(26,507)**	(3,675)
Advance from associates	**221**	39
Loan from third parties	**1,845**	–
Interest paid	**(37,379)**	(34,456)
Net cash generated from financing activities	**80,162**	91,303

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 *HK$'000*	2016 *HK$'000*
Net (decrease)/increase in cash and cash equivalents	**(199,856)**	25,612
Cash and cash equivalents at 1 January	**459,179**	476,873
Effect of foreign exchange rates changes	**38,560**	(43,306)
Cash and cash equivalents at 31 December	**297,883**	459,179
Analysis of the balance of cash and cash equivalents		
Cash held by financial institutions	**353**	341
Bank balances and cash	**317,796**	489,896
Overdraft held at financial institutions	**(20,266)**	(31,058)
Cash and cash equivalents at 31 December	**297,883**	459,179

The notes on pages 121 to 248 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries (collectively referred to as the "Group") is HK$.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 23.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 27 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Disclosure Initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries and the Group's interest in associates.

The consolidated financial statements have been prepared on the historical cost basis, except for the following assets and liabilities that are measured at fair values, as explained in the accounting policies set out below:

– investment properties (note 20)

– available-for-sale investments (note 22)

– financial assets at fair value through profit or loss (note 22)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 Income Taxes;

- assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amounts of the identifiable assets acquired and liabilities assumed as at acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses (note 3(p)), if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

(e) Investments in subsidiaries and non-controlling interests

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss (note 3(p)).

Subsidiaries are entities controlled by the Group. 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investments in subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(f) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (note 3(p)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates *(Continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(g) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses (note 3(p)), if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	3 to 10 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 to 10 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment *(Continued)*

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.. All other repairs and maintenance are recognised in profit or loss during the reporting period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

(h) Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses (note 3(p)). Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investment properties

Investment property is property held to earn rentals and/or for capital appreciation. Investment property includes land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

(j) Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. The concession intangible assets representing water supply and sewage treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(p)). At the end of the concession period, the Group either needs to dispose of the water supply and sewage treatment infrastructure or transfer these assets to the local government.

The concession intangible assets are amortised to write off their cost over their expected useful lives or the remaining concession period, whichever is shorter, using an amortisation method which reflects the pattern in which their future economic benefits are expected to be consumed. Concession intangible assets is amortised on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the water supply and sewage treatment infrastructures are recognised as expenses in the periods in which they are incurred.

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets" below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets *(Continued)*

Consideration given by the grantor (Continued)

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

(k) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill) *(Continued)*

Operating concessions

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortization and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions grants to the Group of 25 to 30 years.

Exclusive rights

The Company and its subsidiaries acquired the exclusive rights of collection and utilisation of landfill gas and rights of sewage emission in connection with the acquisition of the companies.

The exclusive rights were initially recognised at fair value at the acquisition date. The rights have an original period ranging from 10 to 25 years, respectively. These rights, together with exclusive rights acquired separately with finite period (notes 21), are carried at cost less accumulated amortisation and any accumulated impairment losses (note 3(p)).

The exclusive rights of collection and utilization of landfill gas are amortised to write off their cost, over the above terms of the operating rights on a straight-line basis.

(l) Leasehold land and buildings for own use

When the Group makes payments for a property interest which includes both land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lumpsum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

Where the outcome of a construction contract (including construction or upgrade services of the infrastructure under a service concession arrangement) can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(n) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in profit or loss in the period in which they arise.

The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 3(aa).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Investment and other financial assets

The Group's and the Company's policies for investments in equity securities and investment funds, other than investments in subsidiaries and associates and financial assets at fair value through profit or loss, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the end of reporting period.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in "Revenue" or "Interest income", as appropriate, in the statement of profit or loss. The loss arising from impairment is recognised as other operating expenses in the statement of profit or loss.

Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 3(aa). When these investments are derecognised or impaired (see note 3(p)), the cumulative gain or loss is reclassified from equity to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse impact on the debtor or counterparty; or
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates accounted for under the equity method in the consolidated financial statements (note 3(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(p)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(p)(ii).
- For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

- For trade receivables and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade, other and loan receivables included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade, other and loan receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid lease payments;

– goodwill;

– concession intangible assets;

– other intangible assets;

– deposits paid;

– other non-current assets; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost and net realisable value are determined as follows:

(i) Properties held for/under development for sale

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(ii) Trading goods

Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(r) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (note 3(p)).

(s) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and financial institutions and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(u) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(ae)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(w) Equity-settled share-based payment transactions

(i) Share options granted to employees

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity (share options reserve). The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share options reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Equity-settled share-based payment transactions *(Continued)*

(ii) Share options granted to eligible persons

Share options issued in exchange for services are measured at fair values of services received. The fair values of services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

(x) Other employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

The subsidiaries in the PRC participate in the Central Pension Scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are recognised as expenses as they fall due in accordance with the rules of the CPS.

(ii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are included in non-current liabilities as deferred government grants in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(z) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered). Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(aa) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue recognition *(Continued)*

Revenue arising from water supply is recognised based on water supplied as recorded by meter readings during the year.

Revenue from sewage treatment is recognised based on actual sewage treated from meter readings during the year.

Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.

Revenue from long-term construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (note 3(m)).

Revenue from the construction of water supply and sewage treatment plants under service concession agreements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Sales of electricity from the biogas power plant are recognised when electricity is generated and transmitted.

Tariff adjustment represents subsidy received and receivable from the local government authorities in respect of the Group's power generation business. Tariff adjustment is recognised at its fair value where there is reasonable assurance that the additional tariff will be received and the Group will comply with all attached conditions, if any.

Sales and distribution of natural gas are recognised when goods are delivered to the customers.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement or the issue of an occupation permit/a completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits received.

Service income, consultancy fee, handling charges and cleaning income are recognised when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue recognition *(Continued)*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(ab) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. "HK$") using exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ab) Foreign currencies *(Continued)*

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(ac) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(p). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(iv) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

When the seller's risks and rewards incident to owning the underlying asset do not substantively change, the arrangement is that the seller borrows cash, secured by the underlying asset and repayable in instalments over the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ad) 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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(ae) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(ae)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ae) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

(af) Related parties

(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 Group or the Group's parent.

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

(i) The entity and the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(af) 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.

(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).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ag) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's board of directors 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.

(ah) Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations, that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Impairment of available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of the investment is less than its cost. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, change in technology and operational and financing cash flows. As at 31 December 2017, the carrying amount of available-for-sale investments was approximately HK$18,601,000 (2016: HK$90,437,000).

Key sources of estimation uncertainty

The following are 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.

(i) Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(ii) Impairment loss recognised in respect of property, plant and equipment

As at 31 December 2017, the carrying amount of property, plant and equipment was approximately HK$671,738,000 (2016: HK$454,530,000). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

(iii) Impairment loss recognised in respect of prepaid lease payments

As at 31 December 2017, the carrying amount of prepaid lease payments was approximately HK$139,581,000 (2016: the carrying amount of prepaid lease payments was approximately HK$105,675,000). Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

(iv) Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2017, the carrying amount of trade receivables was approximately HK$106,166,000 (2016: HK$61,509,000) (net of accumulated impairment losses of approximately HK$3,848,000 (2016: HK$2,347,000)).

(v) Impairment loss recognised in respect of other receivables and loan receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amounts of other receivables and loan receivables are HK$377,841,000 (2016: HK$95,325,000) and HK$84,483,000 (2016: HK$3,550,000) respectively (net of accumulated impairment losses of HK$3,204,000 (2016: HK$4,858,000) and HK$54,844,000 (2016: HK$54,844,000)) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(vi) Impairment loss of operating concession and exclusive rights

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision. As at 31 December 2017, the carrying amounts of operating concession are HK$578,286,000 (2016: HK$483,794,000). As at 31 December 2017, the carrying amounts of exclusive rights are HK$248,342,000 (2016: HK$155,459,000).

(vii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill was HK$48,313,000 (2016: HK$34,362,000) (net of accumulated impairment losses of HK$244,105,000 (2016: HK$223,265,000)). Details of impairment testing on goodwill are set out in note 21.

(viii) Revenue from construction contracts

Revenue from construction contracts of certain water supply and sewage treatment of the Group are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Any change in these estimates will have an impact on the amount of contract revenue or contract loss.

(ix) Deferred tax assets

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(x) Estimation of water consumption

Determination of the revenue from the distribution and sale of water may include an estimation of the water supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

The actual consumption could deviate from those estimates.

(xi) Classification between operating concessions and receivables under service concession arrangements

As explained in note 3(j) to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2017 were HK$578,286,000 (2016:HK$483,794,000) and HK$33,871,000 (2016: HK$36,615,000), respectively, further details of which are set out in note 18 to the financial statements.

(xii) Fair value estimates on acquisition of subsidiaries

The initial accounting on the acquisition of subsidiaries involves identifying and determining the fair value of the consideration and the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entities will impact the carrying amounts of goodwill and the identifiable assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes various types of borrowings, such as bank borrowings, other loans, amount due to non-controlling shareholders of subsidiaries, loan from associates, obligation under finance leases and overdraft held at financial institutions, less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the raise of various types of borrowings, issuance of convertible bonds and new shares.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by equity attributable to owners of the Company. Net debt is calculated as total borrowings less cash and cash equivalents.

The gearing ratios as at 31 December 2017 and 2016 were as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Overdraft held at financial institutions	**20,266**	31,058
Bank borrowings	**167,100**	122,974
Other loans	**442,276**	360,212
Amounts due to non-controlling shareholders of subsidiaries	**132**	32,808
Loans from associates	**3,148**	2,927
Obligations under finance leases	**102,264**	30,764
Total debt	**735,186**	580,743
Less: Cash held by financial institutions	**(353)**	(341)
Bank balances and cash	**(317,796)**	(489,896)
Cash and cash equivalents	**(318,149)**	(490,237)
Net debt	**417,037**	90,506
Equity attributable to owners of the Company	**1,305,399**	1,263,852
Gearing ratio	**31.95%**	7.16%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include available-for-sale investments, financial assets at fair value through profit or loss, trade and other receivables, cash held at financial institutions, bank balances and cash, trade and other payables, bank borrowings, other loans, amounts due to non-controlling shareholders of subsidiaries and loans from associates. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

(i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

(ii) The Group's credit risk is primarily attributable to trade and other receivables. In order to minimise risk, the management has policies in place to ensure that sales of products and services are made to customers with appropriate credit history, and trade receivables consist of a large number of customers, spread across diverse industries. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group only transacts with entities with good repayment history. Normally, the Group does not obtain collateral from its customers.

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

(iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(v) As at 31 December 2017, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$84,483,000 (2016: HK$3,550,000) (net of accumulated impairment losses of HK$54,844,000 (2016: HK$54,844,000)), which were due from four (2016: one) unrelated parties.

(vi) As at 31 December 2017, the Group had credit risk arising from its financial assets, such as cash held at financial institutions, financial assets at fair value through profit or loss and available-for-sale investments. The Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

(vii) The Group does not provide any guarantees which would expose the Group to credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated based on interest rate current at the end of the reporting period.

2017

	On demand *HK$'000*	Within 1 year *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	31,304	131,708	–	–	–	163,012	163,012
Obligations under finance lease	–	51,973	47,076	13,478	–	112,527	102,264
Bank borrowings and other loans	7,204	351,596	77,309	165,392	75,338	676,839	609,376
Amounts due to non-controlling shareholders	132	–	–	–	–	132	132
Loans from associates	3,285	–	–	–	–	3,285	3,148
	41,925	535,277	124,385	178,870	75,338	955,795	877,932

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

2016

	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities							
Trade and other payables	22,621	182,319	–	–	–	204,940	204,940
Obligations under finance lease	–	12,235	12,235	9,176	–	33,646	30,764
Bank borrowings and other loans	17,081	347,720	27,996	53,448	66,804	513,049	483,186
Amounts due to non-controlling shareholders	32,808	–	–	–	–	32,808	32,808
Loans from associates	3,054	–	–	–	–	3,054	2,927
	75,564	542,274	40,231	62,624	66,804	787,497	754,625

(c) Market risk

(i) Currency risk

Exposure to currency risk

Other than the subsidiaries established in the PRC whose functional currency is RMB, the Company and its subsidiaries' functional currency is HK$. However, certain bank balances and other receivables are denominated in currencies other than HK$ held by the Company and its subsidiaries established in Hong Kong. Foreign currencies are also used to settle expenses for overseas operations.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollar, translated using the spot rate at the end of the reporting period.

	Exposure to foreign currencies (expressed in HK$'000)			
	2017		2016	
	USD	***RMB***	*USD*	*RMB*
Assets	**54**	**281**	326	7,466

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses
		HK$'000		*HK$'000*
Renminbi	**5%**	**12**	5%	312
	(5%)	**(12)**	(5%)	(312)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to bank borrowings, other loans, obligations under finance leases, amounts due to non-controlling shareholders of subsidiaries and loans from associates (see notes 30, 31, 32, 33 and 34 for details) for the years ended 31 December 2017 and 2016. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The following table details the interest rate profile of the Group's interest-bearing financial liabilities at the end of the reporting period:

	2017		2016	
	Effective interest rate %	***HK$'000***	Effective interest rate %	*HK$'000*
Fixed rate borrowings:				
Bank borrowings	**4.32%-7.13%**	**167,100**	4.32%-6.30%	115,159
Other loans	**0%-14.63%**	**431,470**	0%-5.15%	350,164
Obligations under finance leases	**5.30%-7.00%**	**102,264**	6.46%	30,764
Amounts due to non-controlling shareholders of subsidiaries	**0%**	**132**	0%	32,808
Loans from associates	**4.35%**	**3,148**	4.35%	2,927
		704,114		531,822
Variable rate borrowings:				
Bank borrowings	**–**	**–**	5.39%-6.77%	7,815
Other loans	**4.91%**	**10,806**	4.91%-5.00%	10,048
		10,806		17,863
Total borrowings		**714,920**		549,685
Fixed rate borrowings as a percentage of total borrowings		**98%**		97%

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

As 31 December 2017, it is estimated that a general increase/decrease of 50 basis points (2016: 50 basis points) with all other variables held constant, would have decreased/increased the Group's profit for the year (2016: decreased/increased the Group's profit for the year) and increased/decreased the accumulated losses by approximately HK$41,000 (2016: HK$67,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The sensitivity analysis above has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis as 2016.

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities and investments in unlisted investment funds. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the needs arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

Available-for-sale investments

At 31 December 2017, if the prices of the respective available-for-sale investments had been 10% (2016: 10%) higher/lower, the investment revaluation reserve would increase/decrease by HK$1,860,000 (2016: HK$9,044,000), as a result of the changes in fair value of available-for-sale investments.

Financial assets at fair value through profit or loss

At 31 December 2017, if the prices of the respective financial assets at fair value through profit or loss had been 10% (2016: 10%) higher/lower, profit after tax would increase/decrease by HK$3,388,000 (2016: profit after tax would increase/decrease by HK$19,439,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the statement of financial position

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Company's directors are responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group takes reference to the fair value of the financial assets based on the net asset value of the financial assets calculated on the last day of each calendar month and reported by the fund manager or engaged third party qualified valuers to perform the valuation. The Company's directors work closely with third party qualified valuers to establish the appropriate valuation techniques and inputs to the model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the statement of financial position *(Continued)*

(i) Financial instruments carried at fair value (Continued)

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Assets				
Available-for-sale investments				
– Listed	**18,601**	**–**	**–**	**18,601**
Financial assets at fair value through profit or loss				
– Listed	**40,576**	**–**	**–**	**40,576**

	2016			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Assets				
Available-for-sale investments				
– Listed	90,437	–	–	90,437
Financial assets at fair value through profit or loss				
– Listed	98,685	–	–	98,685
– Unlisted	–	–	134,123	134,123

During the years ended 31 December 2017 and 2016, there were no significant transfers between instruments levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the statement of financial position *(Continued)*

(i) Financial instruments carried at fair value (Continued)

Information about Level 3 fair value measurements:

	Valuation technique	Unobservable inputs	Inputs value
Available-for-sale investments			
Unlisted investment funds	Net asset value	N/A	N/A
Financial assets at fair value through profit or loss			
Unlisted investment fund	Net asset value	N/A	N/A

The Level 3 instruments include the unlisted investment funds stated with reference to the net asset value provided by the respective fund managers of the investment funds.

As for the change in Level 3 instruments for the years ended 31 December 2017 and 2016, please refer to note 22.

(ii) Financial instruments carried at other than fair value

The carrying amounts of the Group's other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2017 HK$'000	2016 HK$'000
Water supply services	**129,172**	112,043
Sewage treatment services	**44,331**	44,417
Water supply related installation and construction income	**241,561**	241,813
Water supply and sewage treatment infrastructure construction income	**48,483**	31,166
Sale of electricity	**194,605**	70,690
Sale of compressed natural gas	**29,827**	39,428
Service income from collection of landfill gas	**13,545**	11,089
	701,524	550,646

8. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

(i) "Provision of water supply, sewage treatment and construction services" segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and

(ii) "Exploitation and sale of renewable energy" segment, which derives revenues primarily from sale of electricity and compressed natural gas from biogas power plants.

Information regarding the Group's reportable segments as provided to the board of directors of the Company for the purposes of resource allocation and assessment of segment performance is set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. SEGMENT REPORTING

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments.

For the year ended 31 December 2017

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	**463,547**	**237,977**	**701,524**
Reportable segment profit	**132,495**	**40,197**	**172,692**
Unallocated corporate expenses			**(49,110)**
Interest income			**1,943**
Interest on overdraft held at financial institutions			**(2,591)**
Interest on fixed coupon bonds			**(23,084)**
Net loss on financial assets at fair value through profit or loss			**(40,733)**
Net loss on disposal of available-for-sale investments			**(12,238)**
Impairment loss recognised on available-for-sale investment			**(1,774)**
Profit before taxation			**45,105**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2016

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	429,439	121,207	550,646
Reportable segment profit	126,705	16,777	143,482
Unallocated corporate expenses			(49,053)
Interest income			478
Interest on overdraft held at financial institutions			(1,139)
Interest on fixed coupon bonds			(17,250)
Net gain on financial assets at fair value through profit or loss			22,304
Net gain on disposal of available-for-sale investments			35,699
Impairment loss recognised on available-for-sale investment			(9,704)
Profit before taxation			124,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2017

	Provision of water supply, sewage treatment and construction services HK$'000	Exploitation and sale of renewable energy HK$'000	Corporate HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	19,678	533	1,943	–	22,154
Interest expenses	(1,487)	(6,610)	(25,683)	–	(33,780)
Share of losses of associates	(3,955)	–	–	–	(3,955)
Depreciation of property, plant and equipment	(5,366)	(49,374)	(2,086)	–	(56,826)
Amortisation of:					
– Prepaid lease payments	(1,104)	–	(616)	–	(1,720)
– Concession intangible assets	(24,639)	(4,670)	–	–	(29,309)
– Other intangible assets	–	(31,005)	–	–	(31,005)
Gain/(loss) on disposal of property, plant and equipment and prepaid lease payments	15	(7)	58	–	66
Net loss on disposal of available-for-sale investments	–	–	(12,238)	–	(12,238)
Impairment loss recognised on:					
– Trade and other receivables	(1,951)	(383)	–	–	(2,334)
– Available-for-sale investments	–	–	(1,774)	–	(1,774)
– Goodwill	–	(3,824)	–	–	(3,824)
– Concession intangible assets	(1,512)	–	–	–	(1,512)
Reversal of impairment loss recognised on trade and other receivables	93	2	–	–	95
Reportable segment assets	1,240,104	1,254,241	514,172	119,036	3,127,553
Additions to non-current assets	72,121	183,557	25,349	–	281,027
Reportable segment liabilities	(346,231)	(395,445)	(478,126)	(88,115)	(1,307,917)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2016

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	19,250	145	478	–	19,873
Interest expenses	(2,821)	(2,873)	(18,389)	–	(24,083)
Share of losses of associates	(1,412)	–	–	–	(1,412)
Depreciation of property, plant and equipment	(7,172)	(23,342)	(2,153)	–	(32,667)
Amortisation of:					
– Prepaid lease payments	(973)	–	–	–	(973)
– Concession intangible assets	(23,564)	–	–	–	(23,564)
– Other intangible assets	–	(17,874)	–	–	(17,874)
Loss on disposal of property, plant and equipment and prepaid lease payments	(152)	–	–	–	(152)
Net gain on disposal of available-for-sale investments	–	–	35,699	–	35,699
Impairment loss recognised on:					
– Trade and other receivables	(481)	–	–	–	(481)
– Available-for-sale investments	–	–	(9,704)	–	(9,704)
Reversal of impairment loss recognised on trade and other receivables	70	–	–	–	70
Reportable segment assets	1,038,229	889,804	653,486	171,313	2,752,832
Additions to non-current assets	36,003	210,818	80,475	–	327,296
Reportable segment liabilities	(344,860)	(305,124)	(336,511)	(128,130)	(1,114,625)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, financial assets at fair value through profit or loss and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of overdraft held at financial institutions and other unallocated corporate liabilities.

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 or amortization of assets attributable to those segments.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2016: nil).

The measure used for reporting segment profit is "adjusted profit before tax". To arrive at adjusted profit before tax the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as interest on overdraft held at financial institutions, change in fair value of financial assets at fair value through profit or loss, net gain on disposal of investments, impairment loss recognised on available-for-sale investments, directors' and auditors' remuneration and other head office or corporate administration costs.

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

For the years ended 31 December 2017 and 2016, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. OTHER OPERATING INCOME AND EXPENSES

	2017 HK$'000	2016 HK$'000
Interest income on:		
– bank deposits	**4,522**	3,409
– loans *(note (a))*	**17,632**	16,464
Total interest income on financial assets not at fair value through profit or loss	**22,154**	19,873
Government grants *(note 36)*	**11,978**	10,949
Consultancy fee income	**–**	9,651
Handling charges	**2,457**	2,323
Cleaning income	**519**	333
Repair services income	**385**	1,402
Gross rentals from investment properties	**2,116**	1,458
Gain/(loss) on disposal of property, plant and equipment and prepaid lease payments, net	**66**	(152)
Revenue from sales of properties	**19,448**	25,220
Other operating expenses for sale of properties	**(18,581)**	(25,464)
Gain/(loss) on sales of properties, net	**867**	(244)
VAT refund	**14,931**	6,488
Rental income from leasing equipment	**8,074**	6,544
Gain on investment projects	**–**	8,477
Gain on bargain purchase arising from acquisition of a subsidiary	**–**	1,808
Revenue from management services	**11,572**	–
Project income	**7,910**	–
Others	**14,729**	7,656
	97,758	76,566

Note:

(a) During 2017, the Group earned interest income of HK$17.6 million (2016: HK$16.5 million) on loans to six (2016: two) unrelated parties (note 26), which bears fixed interest ranging from 10% to 36% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on:		
– bank borrowings	**5,624**	5,354
– other loans	**41,403**	22,717
– overdraft held at financial institutions	**2,591**	1,139
Finance charges on obligations under finance leases	**3,610**	742
Total borrowing cost	**53,228**	29,952
Less: interest capitalised included in construction in progress	**(19,448)**	(5,869)
	33,780	24,083

Included in construction-in-progress under concession intangible assets and property, plant and equipment are interest capitalised during the year of HK$19,448,000 (2016: HK$5,869,000) at the capitalisation rate of 8.21% (2016: 6.58%) per annum.

11. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	**–**	–
Current tax – PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**40,317**	38,935
– Over provision in respect of prior years	**(1,227)**	(1,390)
Deferred tax *(note 37)*	**(4,887)**	2,370
	34,203	39,915

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for 2017 (2016: 16.5%).

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% on the estimated assessable profits for both years, except disclosed as follows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. INCOME TAX EXPENSE *(Continued)*

Certain subsidiaries of the Group, being engaged in provision of electricity supply and sale of renewable energy, under the EIT Law and its relevant regulations, are entitled to tax concession of 3-year full exemption and subsequent 3-year 50% exemption commencing from their respective years in which their first operating incomes were derived.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation	**45,105**	124,817
Notional tax on profit before taxation, calculated at the rate applicable to profits in the countries concerned	**22,812**	31,968
Tax effect of share of results of associates	**989**	403
Tax effect of expenses not deductible for tax purposes	**29,989**	18,885
Tax effect of income not taxable for tax purposes	**(23,184)**	(17,253)
Effect on tax exemption granted to PRC subsidiaries	**(8,732)**	(4,915)
Tax effect of tax losses and deductible temporary differences not recognised	**13,556**	8,737
Deferred liabilities arising from undistributed profit of PRC subsidiaries	**–**	3,480
Over provision in respect of prior years	**(1,227)**	(1,390)
	34,203	39,915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2017	2016
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**139,619**	126,942
– Retirement benefits scheme contributions	**15,624**	14,880
Total staff costs	**155,243**	141,822
Amortisation of:		
– Prepaid lease payments	**1,720**	973
– Concession intangible assets	**29,309**	23,564
– Other intangible assets	**31,005**	17,874
Depreciation of property, plant and equipment	**56,826**	32,667
(Gain)/loss on disposal of property, plant and equipment and prepaid lease payment	**(66)**	152
Auditors' remuneration		
– audit services	**3,019**	2,081
– other services	**–**	260
Minimum lease payments under operating leases	**6,435**	6,221
Cost of inventories sold	**196,724**	128,826
Gross rental income from investment properties less direct outgoings of approximately HK$568,000 (2016: HK$117,000)	**1,548**	1,341
(Gain)/Loss on sales of properties, net	**(867)**	244

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, all (2016: all) were directors and chief executive whose emoluments are set out in note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

15. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	2017	2016
	HK$'000	*HK$'000*
(Loss)/profit attributable to the owners of the Company, used in the basic and diluted (loss)/earnings per share	**(49,111)**	31,263

	No. of shares	No. of shares
	'000	*'000*
Weighted average number of ordinary shares – basic and diluted	**1,596,540**	1,596,540
(Loss)/earnings per share (HK cents):		
Basic	**(3.08)**	1.96
Diluted	**(3.08)**	1.96

For the years ended 31 December 2017 and 2016, diluted earnings per share equals basic (loss)/earnings per share as there was no dilutive potential share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2016	112,480	98,671	12,522	26,826	61,294	311,793
Additions	4,717	150,393	2,222	1,806	58,370	217,508
Additions – interest capitalised	–	–	–	–	3,820	3,820
Acquisition through business combination	8,873	41,444	8	481	–	50,806
Transfer to investment properties	(27,632)	–	–	–	–	(27,632)
Transfer	13,779	75,147	1,392	58	(90,376)	–
Disposals	(451)	(4,150)	–	(4,542)	(7)	(9,150)
Exchange realignment	(13,651)	(16,251)	(5,981)	(1,267)	–	(37,150)
At 31 December 2016 and 1 January 2017	98,115	345,254	10,163	23,362	33,101	509,995
Additions	2,093	14,663	1,986	6,478	178,970	204,190
Additions – interest capitalised	–	–	–	–	15,466	15,466
Acquisition through business combination	4,406	20,179	141	105	830	25,661
Transfer to investment properties	(9,648)	–	–	–	–	(9,648)
Transfer	5,424	101,119	1,279	–	(107,822)	–
Disposals	(833)	(3,768)	(150)	(2,667)	–	(7,418)
Exchange realignment	7,339	35,887	1,111	1,841	4,049	50,227
At 31 December 2017	**106,896**	**513,334**	**14,530**	**29,119**	**124,594**	**788,473**
Accumulated depreciation and impairment:						
At 1 January 2016	2,968	15,674	4,376	11,370	–	34,388
Provided for the year	6,110	20,032	1,021	3,509	1,995	32,667
Transfer to investment properties	(656)	–	–	–	–	(656)
Eliminated on disposal	(122)	(1,606)	–	(2,850)	–	(4,578)
Exchange realignment	(766)	(4,572)	(286)	(732)	–	(6,356)
At 31 December 2016 and 1 January 2017	7,534	29,528	5,111	11,297	1,995	55,465
Provided for the year	6,527	42,427	2,693	3,744	1,435	56,826
Transfer to investment properties	(1,262)	–	–	–	–	(1,262)
Eliminated on disposal	(328)	(2,931)	(143)	(1,369)	–	(4,771)
Exchange realignment	1,172	7,699	694	912	–	10,477
At 31 December 2017	**13,643**	**76,723**	**8,355**	**14,584**	**3,430**	**116,735**
Carrying values						
At 31 December 2017	**93,253**	**436,611**	**6,175**	**14,535**	**121,164**	**671,738**
At 31 December 2016	90,581	315,726	5,052	12,065	31,106	454,530

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2016 and 2017, all of the property usage permits of buildings have been granted by relevant government authorities.

As at 31 December 2017, none (2016: none) of the Group's buildings was pledged to secure the bank and other borrowings granted to the Group.

During the year, additions to property, plant and equipment financed by new finance lease were HK$101,004,000 (equivalent to RMB87,571,000) (2016: HK$33,731,000 (equivalent to RMB30,213,000)). At the end of the reporting period, the carrying amount of property, plant and equipment held under finance lease was HK$137,023,000 (equivalent to RMB114,119,000) (2016: HK$33,197,000 (equivalent to RMB29,735,000)).

An impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA, to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amount of the property, plant and equipment for the years ended 31 December 2017 and 2016.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments in relation to land use rights in the PRC, and analysed for reporting purposes as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Carrying values		
At 1 January	**105,675**	23,242
Additions	**27,209**	85,093
Acquisition through business combination	**328**	–
Amortisation for the year	**(1,720)**	(973)
Exchange realignment	**8,089**	(1,687)
At 31 December	**139,581**	105,675
Current assets	**11,064**	1,645
Non-current assets	**128,517**	104,030
	139,581	105,675

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these prepaid lease payments. The directors of the Company engaged AVISTA to perform a valuation of these prepaid lease payments in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amounts of the prepaid lease payments for the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. CONCESSION INTANGIBLE ASSETS

As further explained in the accounting policy for "service concession arrangements" set out in note 3(j) to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

Operating concessions

	2017	2016
	HK$'000	*HK$'000*
Cost		
At 1 January	**604,325**	610,570
Additions	**48,531**	24,663
Acquisition through business combination	**38,806**	–
Additions – interest capitalised	**3,982**	2,049
Exchange realignment	**44,582**	(32,957)
At 31 December	**740,226**	604,325
Accumulated amortisation and impairment		
At 1 January	**120,531**	106,745
Provided for the year	**29,309**	23,564
Impairment	**1,512**	–
Exchange realignment	**10,588**	(9,778)
At 31 December	**161,940**	120,531
Carrying values		
At 31 December	**578,286**	483,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. CONCESSION INTANGIBLE ASSETS *(Continued)*

Receivables under service concession arrangements

	2017 HK$'000	2016 HK$'000
Receivables under service concession arrangements	**33,871**	36,615
Impairment	**–**	–
	33,871	36,615
Portion classified as current assets	**(4,923)**	(5,122)
Non-current portion	**28,948**	31,493

The subsidiaries of the Group, Yichun Water Industry Co., Limited ("Yichun Water"), Linyi Fenghuang Water Industry Co., Ltd ("Linyi Fenghuang") and Yingtan Water Supply Group Co., Ltd ("Yingtan Water Supply") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of water supply plant and was granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant.

The subsidiaries of the Group, Yichun Fangke Sewage Treatment Company Limited ("Yichun Fangke"), Jining City Haiyuan Water Treatment Company Limited ("Jining Haiyuan") and Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of sewage treatment plant and was granted with an exclusive operating right for provision of sewage treatment services to the public users for a period ranging from 25 years to 29 years, commencing from the operation of the respective waste treatment plant.

The subsidiary of the Group, Chengdu City Green State Renewable Energy Co., Limited ("Chengdu City Green State") entered into the service concession arrangement with the respective local government whereby the subsidiary is required to build the infrastructure of electricity plant and was granted with an exclusive operating right for provision of electricity services to the respective local government for a period of 10.5 years commencing from the operation of respective electricity plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights since commencement of operations. The receipt from these service concession arrangement, are contingent on the extent that public uses the services.

For the year ended 31 December 2017, the Group has recognised service concession construction revenue of HK$48,483,000 (2016: HK$31,166,000) and profit of HK$6,717,000 (2016: HK$2,964,000) during the construction periods of the service concession periods.

The recoverable amounts of the CGUs under water supply and sewage treatment which contain concession intangible assets is determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and pre-tax discount rate of 14.0% – 14.5% (2016: 13.1% – 13.9%). Cash flows beyond the five-year period have been extrapolated using a steady 2% (2016: 2% – 4%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. OTHER NON-CURRENT ASSETS

	2017 HK$'000	2016 HK$'000
At fair value		
At 1 January	**19,369**	20,711
Exchange realignment	**1,463**	(1,342)
At 31 December	**20,832**	19,369

During 2015, Yingtan Water Supply entered into agreements with a local government office to transfer all units of the investment property (the "Resumption Properties") to the local government for the development of a composite project, which Yingtan Water Supply will receive compensation including transfer of certain construction floor areas of the new premises (the "New Premises").

The fair value of the New Premises at the date of transfer has been arrived at on the basis of a valuation carried out as at that date by AVISTA, by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values. The fair value of the New Premises, estimated at HK$21,563,000, was recognised as deemed consideration during the year ended 2015.

The carrying amount of the New Premises, classified as other non-current assets, at 31 December 2017 was HK$20,832,000 (2016: HK$19,369,000).

As at 31 December 2017, the New Premises are still under construction, and is expected to be completed in September 2018.

20. INVESTMENT PROPERTIES

	2017 HK$'000	2016 HK$'000
At fair value		
At 1 January	**32,510**	–
Reclassified as investment properties during the year	**8,386**	26,976
Fair value recognised in revaluation reserve	**1,754**	4,785
Fair value gain recognised for the year	**1,223**	1,613
Exchange realignment	**2,919**	(864)
At 31 December	**46,792**	32,510

20. INVESTMENT PROPERTIES *(Continued)*

The fair value of the investment properties has been arrived at on the basis of a valuation carried out as year ended date by AVISTA, by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values.

Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December	**Fair value measurements 31 December categorised into**		
		Level 1	**Level 2**	**Level 3**
2017	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**46,792**	**–**	**–**	**46,792**

	Fair value at 31 December	Fair value measurements 31 December categorised into		
		Level 1	Level 2	Level 3
2016	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	32,510	–	–	32,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. INVESTMENT PROPERTIES *(Continued)*

Fair value measurement of properties *(Continued)*

(i) Fair value hierarchy (Continued)

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2017. The valuations were carried out by AVISTA who have recent experience in the location and category of property being valued. The Company's directors have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range 2017
Investment properties			
Commercial – PRC	Income approach (term and reversionary method)	Term and reversionary yield	5% to 9% (2016: 5% to 9%)

The fair value of investment properties located in the PRC as at 31 December 2017 is determined by using income approach (term and reversionary method) which largely used observable inputs (e.g. market rent, yield, etc) and taking into account on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease. The higher the vacancy rate and term and reversionary yield, the lower the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2017 **HK$'000**	2016 HK$'000
Investment properties – Commercial – PRC		
At 1 January	**32,510**	–
Reclassified as investment properties during the year	**8,386**	26,976
Fair value recognised in revaluation reserve	**1,754**	4,785
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**1,223**	1,613
Exchange realignment	**2,919**	(864)
At 31 December	**46,792**	32,510

Exchange adjustment of investment property are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. OTHER INTANGIBLE ASSETS

	Goodwill	Exclusive rights of collection and utilisation of landfill gas	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2016	259,213	167,281	426,494
Acquisition of exclusive rights	–	32	32
Acquisition of subsidiaries *(note 38)*	15,626	32,199	47,825
Exchange realignment	(17,212)	(12,769)	(29,981)
At 31 December 2016 and 1 January 2017	**257,627**	**186,743**	**444,370**
Acquisition of exclusive rights	**–**	**1,097**	**1,097**
Acquisition of subsidiaries *(note 38)*	**14,385**	**105,199**	**119,584**
Exchange realignment	**20,406**	**21,160**	**41,566**
At 31 December 2017	**292,418**	**314,199**	**606,617**
Accumulated amortisation and impairment			
At 1 January 2016	238,193	15,208	253,401
Amortisation	–	17,874	17,874
Exchange realignment	(14,928)	(1,798)	(16,726)
At 31 December 2016 and 1 January 2017	**223,265**	**31,284**	**254,549**
Amortisation	**–**	**31,005**	**31,005**
Impairment loss recognised for the year	**3,824**	**–**	**3,824**
Exchange realignment	**17,016**	**3,568**	**20,584**
At 31 December 2017	**244,105**	**65,857**	**309,962**
Carrying values			
At 31 December 2017	**48,313**	**248,342**	**296,655**
At 31 December 2016	34,362	155,459	189,821

(i) The exclusive rights acquired upon acquisition of subsidiaries were initially recognised at fair value at the acquisition date. The exclusive rights acquired separately were initially recognised at cost. Amortisation expense for the year ended 31 December, 2017 was HK$31,005,000 (2016: HK$17,874,000), of which HK$26,922,000 (2016: HK$16,984,000) and HK$4,083,000 (2016: HK$890,000) were recorded into cost of sales and administrative expenses, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to fifteen (2016: eleven) individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2017 and 2016 allocated to these units are as follows:

	2017	2016
	HK$'000	*HK$'000*
Water supply and sewage treatment		
Blue Mountain Hong Kong Group Limited	**–**	–
Onfar International Limited	**–**	–
Jining Haiyuan	**–**	–
Gaoming Huaxin	**–**	–
Collection and utilization of landfill gas		
Shenzhen City Li Sai Industrial Development Limited	**12,449**	11,575
Nanjing Feng Shang New Technology Limited Liability Company	**8,693**	8,083
Hunan Huiming Environmental Technology Limited ("Huiming Technology")	**–**	–
Datang Huayin Chenzhou Environmental Power Company Limited ("Chenzhou Environmental")	**2,821**	6,324
Datang Huayin Heng Yang Environmental Power Company Limited ("Heng Yang Environmental")	**5,005**	4,654
Baoji City Electric Power Development Co., Limited ("Baoji")	**1,451**	1,349
Chongqing Camda New Energy Equipment Company Limited ("Chongqing Camda")	**2,557**	2,377
Ningbo Qiyao New Energy Company Limited ("Ningbo Qiyao")	**81**	–
Datang Huayin Xiangtan Environmental Electricity Generation Company Limited ("Datang Huayin Xiangtan")	**1,197**	–
Shandong Qiyao New Energy Company Limited ("Shandong Qiyao")	**1,426**	–
Chengdu City Green State	**12,633**	–
	48,313	34,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill *(Continued)*

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of HK$244,105,000 (2016: HK$223,265,000) as at 31 December 2017 in relation to goodwill arising on acquisition of the subsidiaries.

In 2016, the recoverable amount of the CGUs is higher than the carrying amount, and no impairment for the year 2016.

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Water supply and sewage treatment

The recoverable amount of the CGUs under the water supply and sewage treatment operation is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2% – 4% (2016: 3% – 4%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate ranging from 13.7% to 14.5% (2016: 13.9%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

The recoverable amount of the CGUs at 31 December 2017 was HK$510,947,000 (RMB425,542,000) (2016: HK$486,870,000 (RMB436,107,000)).

Collection and utilization of landfill gas

The recoverable amount of the CGUs under the collection and utilization of landfill gas is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2% – 3% (2016: 3% – 4%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate ranging from 16.8% to 19.2% (2016: 17.5% – 24.1%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

In light of the operating loss of Chenzhou Environmental incurred in 2017, an impairment loss was made on goodwill of HK$3,824,000 (RMB3,315,000). The recoverable amount of this CGU at 31 December 2017 was HK$28,680,000 (RMB23,886,000).

22. INVESTMENTS

	Available-for-sale investments		Financial assets at fair value through profit or loss – held for trading	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities listed in Hong Kong	**18,601**	90,437	**40,576**	98,685
Unlisted investment funds	**–**	–	**–**	134,123
	18,601	90,437	**40,576**	232,808

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

As at 31 December 2017, the Group's available-for-sale investments were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments of HK$1,774,000 (2016: HK$9,704,000) were recognised in profit or loss in accordance with the policy set out in note 3(p)(i).

As at 31 December 2016, the unlisted investment fund (the "Fund") primarily invested in listed securities in Asian market, and were stated with reference to the net asset values provided by the fund managers on the last day of each calendar month.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

22. INVESTMENTS *(Continued)*

The movement of the unlisted investment funds, classified as available-for-sale investments, is set out below:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**–**	35,015
Fair value change (included in other comprehensive income)	**–**	–
Disposal	**–**	(35,015)
At 31 December	**–**	–

The net unrealised gains arising from remeasurement of the available-for-sale investments are recognised in investment revaluation reserve in other comprehensive income.

The movement of the unlisted investment funds, classified as financial assets at fair value through profit or loss, is set out below:

	2017	2016
	HK$'000	*HK$'000*
Beginning of the year	**134,123**	114,928
Subscription of funds	**36,050**	82,400
Disposals	**(139,951)**	(87,549)
Fair value (loss)/gain (included in net (loss)/gain on financial assets at fair value through profit or loss)	**(30,222)**	24,344
End of the year	**–**	134,123
Total gain for the year included in profit or loss for assets held at the end of the reporting period (included in net gain on financial assets at fair value through profit or loss)	**–**	51,723

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For the year ended 31 December 2017

23. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2017. The class of shares held is ordinary, unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Billion City Investments Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Onfar International Limited	BVI/Hong Kong	US$100	–	100%	Investment holding	Private limited liability company
Yichun Water Industry Co., Limited* ("Yichun Water")	PRC	RMB45,500,000	–	51%	Provision of water supply and installation of water supply facilities	Chinese foreign equity joint venture
Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke")	PRC	RMB95,000,000	–	54.33%	Sewage treatment	Domestic enterprise
Yichun City Water Supply Engineering Limited*	PRC	RMB5,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yichun Kun Lun Information Technology Company Limited*	PRC	RMB2,000,000	–	100%	Information services	Domestic enterprise
Jiangxi Dekang Purified Water Company Limited*	PRC	RMB1,450,000	–	100%	Exploitation, production and sale of purified and drinking system	Domestic enterprise
Jiangxi Dekang Environmental Testing and Development Limited*	PRC	RMB1,000,000	–	100%	Environmental testing and product testing	Domestic enterprise
Nourish Gain Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
China Ace Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan")	PRC	RMB40,000,000	–	70%	Sewage treatment	Chinese foreign equity joint venture

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Swan (Huizhou) Investment Company Limited*	PRC	US$30,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Swan (Huizhou) Creative Technology Company Limited*	PRC	RMB175,000,000	–	100%	Renewable energy technology development	Domestic enterprise
Huizhou Swan Heng Chang Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
Huizhou Swan Dadi Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	Chinese foreign equity joint venture
Shenzhen Haisheng Environmental Sci-Tech Company Limited*	PRC	HK$20,000,000	–	100%	Installation of water suppliers facilities	Wholly-owned foreign enterprise
Shenzhen Shi Guang Company Limited*	PRC	RMB1,000,000	–	100%	Trading company	Domestic enterprise
Shi Guang Limited	Hong Kong	HK$10,000	–	100%	Trading company	Private limited liability company
Yingtan Water Supply Group Co., Ltd* (Yingtan Water Supply)	PRC	RMB66,008,000	–	51%	Provision of water supply	Chinese foreign equity joint venture
Jiangxi Shunda Construction Engineering Limited*	PRC	RMB20,500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	RMB500,000	–	100%	Installation of water supply facilities	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Jiangxi Hualei Construction Co., Limited*	PRC	RMB20,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xiang Rui Property Limited*	PRC	RMB20,000,000	–	100%	Property development	Domestic enterprise
Yingtan City Plumbing and Drainage Investigation and Design Company Limited*	PRC	RMB500,000	–	100%	Design of water pipeline network	Domestic enterprise
Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang")	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Renewable Resources Investment Company Limited* ("New China Water (Nanjing)")	PRC	US$82,880,000	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise
Changsha New China Water Environmental Technology Limited* (Formerly known as Changsha Huiming Recycling Resources Technology Limited)	PRC	RMB50,000,000	–	94.6%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai")	PRC	RMB50,000,000	–	88%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City New China Water Environmental Technology Limited* ("Shenzhen New China Water")	PRC	RMB80,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Qingyuan City Greenspring Environmental Technology Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Huiming Environmental Technology Limited* ("Hunan Technology")	PRC	RMB18,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Liuyang New China Water Environmental Technology Limited* (Formerly known as Hunan Feng Ming Energy Technology Limited)	PRC	RMB3,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Wuzhou City China Water New Renewable Resources Company Limited *	PRC	RMB15,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") *(note 38(f))*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") *(note 38(g))*	PRC	RMB4,100,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Baoji City Electric Power Development Co., Ltd* ("Baoji") *(note 38(e))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") *(note 38(h))*	PRC	RMB20,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") *(note 38(i))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Carbon Company Limited*	PRC	RMB45,800,000	–	100%	Development of carbonic technology	Domestic enterprise
New China Water (Nanjing) Energy Company Limited*	PRC	RMB53,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Hexian) Recycling Resources Technology Limited*	PRC	HK$14,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Yichun City New China Water Energy Technology Limited*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City New China Water Electric Power Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Ningbo Qiyao New Energy Company Limited*("Ningbo Qiyao") *(note 38(b))*	PRC	RMB8,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Xiangtan Environmental Electricity Generation Company Limited*("Datang Huayin Xiangtan") *(note 38(d))*	PRC	RMB6,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Xinhua New China Water Environmental Technology Limited*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Shandong QiYao New Energy Company Limited*("Shandong Qiyao") *(note 38(c))*	PRC	RMB7,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Anqiu City New China Water Environmental Technology Limited*	PRC	RMB12,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Jining City Haisheng Water Treatment Company Limited*	PRC	RMB5,000,000	–	100%	Sewage treatment	Domestic enterprise
Fengcheng New China Water Environmental Technology Limited*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") *(note 38(a))*	PRC	RMB47,000,000	–	49%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Zhangjiakou New China Water Energy Technology Limited*	PRC	RMB6,300,000	–	70%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hainan Danzhou New China Water Environmental Technology Limited*	PRC	RMB500,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hong Kong New China Water Renewable Resources Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Conquer Asia Development Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Happy Hour Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Mascot Industries Limited	Hong Kong	HK$2	–	100%	Investment holding	Private limited liability company
Smart Giant Group Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Blue Mountain Hong Kong Group Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Golden Trend International Capital Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Swift Surplus Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Mark Profit Group Holdings Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	HK$12,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin")	PRC	RMB10,000,000	–	70%	Sewage treatment	Domestic enterprise
Bonus Raider Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Bloom Profit Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Hong Kong Glass Resources Limited	Hong Kong	HK$100	–	100%	Glass Recycling	Private limited liability company
Hong Kong Glass Reborn Limited	Hong Kong	HK$5,000,000	–	70%	Glass Recycling	Private limited liability company

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
South Top Investment Ltd.	Hong Kong	HK$1	100%	–	Provision of administrative services	Private limited liability company
Neutral Crown Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company

* The English names are for identification purpose only.

Notes:

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries has issued any debt securities subsisting at the end of 2017 and 2016 or at any time during the years ended 31 December 2017 and 2016.

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Yingtan Water Group		Yichun Water Group	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%
Current assets	**421,191**	335,214	**183,967**	180,378
Non-current assets	**299,210**	286,345	**251,222**	259,093
Current liabilities	**(218,089)**	(219,475)	**(129,820)**	(145,397)
Non-current liabilities	**(79,530)**	(69,517)	**(26,071)**	(24,370)
Net assets	**422,782**	332,567	**279,298**	269,704
Carrying amount of NCI	**207,163**	162,958	**136,856**	132,155
Revenue	**166,986**	164,379	**183,503**	210,934
Profit for the year	**72,185**	66,073	**18,706**	27,428
Total comprehensive income	**43,676**	87,218	**10,861**	34,064
Profit allocated to NCI	**35,371**	32,376	**9,166**	13,440
Dividend paid by the subsidiaries	**–**	–	**–**	–
Dividend paid to NCI	**–**	–	**–**	–
Cash flows generated from operating activities	**45,766**	952,974	**42,088**	206,151
Cash flows used in investing activities	**(199,529)**	(29,388)	**(23,137)**	(6,767)
Cash flows generated from/(used in) financing activities	**5,007**	(868,887)	**3,877**	(212,679)

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24. INTERESTS IN ASSOCIATES

	2017	2016
	HK$'000	*HK$'000*
Share of net assets	**59,009**	71,534

All the Company's associates are unlisted corporate entities whose quoted market price is not available. All of these associates are accounted for using the equity method in the consolidated financial statements.

The recoverable amount of Jinan Hongquan has been determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a two-year period, and pre-tax discount rate of 13.7% (2016: 13.7%). Cash flows beyond the two-year period have been extrapolated using 3.3% – 4% (2016: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry. The recoverable amount of this CGU at 31 December 2017 was HK$106,463,000 (RMB88,667,000).

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Yu Jiang Hui Min Small-Sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司	PRC	Contributed capital	–	10%	Money lending business *(note i)*	Domestic enterprise
Jinan Hongquan Water Production Co., Limited* ("Jinan Hongquan") 濟南泓泉制水有限公司	PRC	Contributed capital	–	35%	Provision of water supply *(note ii)*	Domestic enterprise
Super Sino Investment Limited ("Super Sino")	Hong Kong	Paid-up capital	–	30%	Investment holding in companies engaged in provision for water supply, installation of water supply facilities and water testing *(note iii)*	Private limited liability company

* The English names are for identification purpose only.

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24. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(i) On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. During the years ended 31 December 2017 and 2016, the Group has the right to nominate two out of five of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group. Yu Jiang Hui Man enables the Group to have exposure in the money lending business through local expertise.

In June 2017, the shareholders of Yu Jiang Hui Min dissolved a voluntary deduction in share capital of RMB1,000,000. The Group's interest in Yu Jiang Hui Min was reduced proportionate to the existing share capital. Percentage of investments in Yu Jiang Hui Min remained unchanged and the reduction in share capital has been fully received.

(ii) Jinan Hongquan enables the Group to have exposure in provision of water supply in Jinan, the PRC.

(iii) As of 31 December 2016 and 31 December 2017, the Group has pledged 3 ordinary shares (or 30%) in the issued share capital of Super Sino (the "Share Pledge"). Subsequent to the end of the reporting period, the Share Pledge was released.

Aggregate information of associates that are not individually material:

	2017	2016
	HK$'000	*HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**59,009**	71,534
Aggregate amounts of the Group's share of those associates		
Loss for the year	**(3,955)**	(1,412)
Other comprehensive loss	**(8,570)**	(1,714)
Total comprehensive loss	**(12,525)**	(3,126)

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25. INVENTORIES

	2017 HK$'000	2016 HK$'000
Properties held for sale	**156,988**	151,642
Raw materials	**36,769**	32,932
Finished goods	**–**	15
	193,757	184,589

The analysis of the amount of inventories recognised as an expense is as follows:

	2017 HK$'000	2016 HK$'000
Carrying amount of inventories sold	**163,456**	111,691

26. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**110,014**	63,856
Less: Allowance for doubtful debts	**(3,848)**	(2,347)
	106,166	61,509
Other receivables *(note a)*	**381,045**	100,183
Less: Allowance for doubtful debts	**(3,204)**	(4,858)
	377,841	95,325
Loan receivables *(note b)*	**139,327**	58,394
Less: Allowance for doubtful debts	**(54,844)**	(54,844)
	84,483	3,550
Deposits and prepayments *(note c)*	**63,493**	125,853
	631,983	286,237

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26. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Other receivables mainly included the following items:

(i) A receivable of HK$139.95 million (2016: HK$40.90 million) from the disposal of investments in unlisted investment funds (classified as financial assets at fair value through profit or loss in 2017 and classified as available-for-sale investments in 2016).

(ii) Other receivable included a refund of the trade deposit for purchase of goods. A subsidiary of the Company entered into a sales contract with an independent third party to purchase the goods. However, the independent third party failed to provide the goods on delivery date. According to the sales contract and agreed with the independent third party, it will refund the full amount of deposit paid with a compensation to the subsidiary. Total amount of HK$55.40 million (equivalent to RMB46.14 million) was outstanding as at 31 December 2017. The subsidiary of the Company received the amount subsequent to the reporting period.

(iii) During the year ended 31 December 2017, a subsidiary of the Company entered into a co-operation agreement with an independent third party to bid an infrastructure construction. The deposit of HK$120.07 million (equivalent to RMB100.00 million) was paid. At the end of the reporting period, the subsidiary of the Company and the independent third party agreed to terminate the co-operation agreement, and the deposit was refunded in January 2018.

(b) Apart from the loans to Top Vision of HK$43.60 million (note 45(b)) and other borrowers of HK$11.24 million which were both fully impaired, also included in loan receivables as at 31 December 2017 were loans to four (2016: one) unrelated parties of HK$84.48 million (2016: HK$3.55 million), which bear fixed interest rate ranging from 10% to 36% per annum (note 9(a)).These parties have no recent history of default.

(c) Deposits and prepayments were mainly prepayments and tender deposits paid to independent third parties for construction projects during the year 2017.

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26. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables

The Group allows an average credit period of 0 day to 180 days to its customers. Further details on the Group's credit policy are set out in note 6.

The ageing analysis of the trade receivables, net, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 90 days	**89,131**	56,926
91 to 180 days	**12,111**	2,530
181 to 365 days	**2,869**	121
Over 1 year	**2,055**	1,932
	106,166	61,509

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**101,242**	59,456
Past due but not impaired		
Within 90 days	**–**	–
91 to 180 days	**2,869**	121
181 to 365 days	**840**	717
Over 1 year	**1,215**	1,215
	106,166	61,509

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

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 (note 3(p)).

The movements in the allowance of doubtful debts on trade receivables are as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**2,347**	2,331
Impairment loss recognised	**1,473**	198
Reversal of impairment loss	**(95)**	(27)
Uncollectible amounts written off	**(107)**	–
Exchange realignment	**230**	(155)
At 31 December	**3,848**	2,347

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$3,848,000 (2016: HK$2,347,000) which are long outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. TRADE AND OTHER RECEIVABLES *(Continued)*

Other receivables

Impairment losses in respect of other 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 other receivables directly (note 3(p)). The movements in the allowance of doubtful debts on other receivables are as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**4,858**	10,466
Acquisition of subsidiaries	**–**	726
Impairment loss recognised	**861**	283
Uncollectible amounts written off	**(2,696)**	(6,450)
Reversal of impairment loss	**–**	(43)
Exchange realignment	**181**	(124)
At 31 December	**3,204**	4,858

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$3,204,000 (2016: HK$4,858,000) which are long outstanding. The management considered the recovery of certain other receivables HK$2,696,000 (2016: HK$6,450,000) is remote, and the amount considered irrecoverable and written off against other receivables.

Loan receivables

Impairment losses in respect of loan 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 loan receivables directly (note 3(p)).

The movements in the allowance of doubtful debts on loan receivables are as follows:

	2017	2016
	HK$'000	*HK$'000*
At 31 December	**54,844**	54,844

Included in the impairment loss are individually impaired loan receivables with an aggregate balance of HK$54,844,000 (2016: HK$54,844,000) which are long outstanding. The Group does not hold any collateral over these balances.

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27. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASHFLOW INFORMATION

(a) Cash held by financial institutions by the Group represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2016: 0% to 0.001%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

	2017	2016
	HK$'000	*HK$'000*
Cash held by financial institutions	**353**	341
Cash at bank and on hand	**317,796**	489,896
Overdraft held at financial institutions	**(20,266)**	(31,058)
Cash and cash equivalents in the consolidated cash flow statement	**297,883**	459,179

The overdrafts are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the financial institutions should be entitled, without notice to the Group, to close the account and/or dispose of any or all securities held for or on behalf of the Group to settle all outstanding amounts owing to financial institutions (note 22). The securities amounted HK$58,295,000 (2016: HK$146,708,000) was held by the financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASHFLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank borrowings *HK$'000*	Other loan *HK$'000*	Obligation under finance lease *HK$'000*	Amount due (from) /to NCI *HK$'000*	Loans from associate *HK$'000*	Total *HK$'000*
At 1 January 2017	**122,974**	**360,212**	**30,764**	**32,808**	**2,927**	**549,685**
Changes from financing cash flows:						
Proceeds from new bank borrowings and other loans	74,280	3,832	–	–	–	78,112
Repayment of bank borrowings and other loans	(40,955)	–	–	–	–	(40,955)
Repayment to non-controlling shareholders	–	–	–	(32,676)	–	(32,676)
Proceed from obligation of finance leases	–	–	92,697	–	–	92,697
Repayment of finance lease repaid	–	–	(26,507)	–	–	(26,507)
Advance from associates	–	–	–	–	221	221
Proceed from issuance fixed coupon bonds	–	310,098	–	–	–	310,098
Repayment of fixed coupon bonds	–	(255,000)	–	–	–	(255,000)
Loan from unrelated parties	–	1,845	–	–	–	1,845
Interest paid	(5,624)	(28,596)	(3,159)	–	–	(37,379)
Total changes from financing cash flows	27,701	32,179	63,031	(32,676)	221	90,456
Exchange adjustments	10,801	5,891	4,859	–	–	21,551
Other changes:						
Finance charges on obligation under finance leases	–	–	3,610	–	–	3,610
Interest expenses	5,624	43,994	–	–	–	49,618
Total other changes	5,624	43,994	3,610	–	–	53,228
At 31 December 2017	**167,100**	**442,276**	**102,264**	**132**	**3,148**	**714,920**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**85,704**	30,979
Receipt in advance	**43,242**	30,099
Construction payables	**23,756**	71,163
Interest payables	**13,104**	11,139
Consideration payable	**2,855**	25,106
Forward sales deposits received	**4,091**	13,708
Other tax payables	**9,459**	7,508
Accrued expenses	**20,040**	16,099
Guarantee deposits from a subcontractor	**–**	11,164
Sewage treatment fees received on behalf of certain government authorities	**6,793**	12,373
Other payables	**10,760**	26,917
	219,804	256,255

The ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**24,510**	10,248
31 to 90 days	**22,736**	2,581
91 to 180 days	**6,187**	9,383
181 to 365 days	**24,415**	1,350
Over 1 year	**7,856**	7,417
	85,704	30,979

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

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29. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	2017 HK$'000	2016 HK$'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits	**128,249**	110,231
Less: progress billings	**(323,754)**	(261,030)
	(195,505)	(150,799)
Analysed for reporting purposes		
Amounts due from contract customers	**19,276**	4,982
Amounts due to contract customers	**(214,781)**	(155,781)
	(195,505)	(150,799)

As at 31 December 2017 and 2016, there were no retentions held by customers for contract work. Advance received from customers for contract work amounted to HK$6,573,000 (2016: HK$39,537,000) was included in trade and other payables (note 28).

30. BANK BORROWINGS

At 31 December 2017, the bank borrowings were repayable as follows:

	2017 HK$'000	2016 HK$'000
Within one year or on demand	**70,833**	48,729
More than one year but within two years	**60,385**	23,801
More than two years but within five years	**35,882**	50,444
	167,100	122,974
Less: Amount due within one year shown under current liabilities	**(70,833)**	(48,729)
Amount due from one year shown under non-current liabilities	**96,267**	74,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. BANK BORROWINGS *(Continued)*

	2017 HK$'000	2016 HK$'000
Secured	**131,079**	118,509
Unsecured	**36,021**	4,465
	167,100	122,974

The exposure of the Group's loans is as follows:

	2017 HK$'000	2016 HK$'000
Fixed-rate loans	**167,100**	115,159
Variable-rate loans	**–**	7,815
	167,100	122,974

The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

At 31 December 2017, the Group has access to the following undrawn bank borrowing facilities:

	2017 HK$'000	2016 HK$'000
Fixed-rate		
– expiring within one year	**112,459**	–

All of the bank loans, including amounts repayable on demand, are carried at amortised cost.

None of the Group's property, plant and equipment were pledged to secure the respective bank borrowings as at 31 December 2016 and 2017.

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30. BANK BORROWINGS *(Continued)*

Notes:

(i) Bank borrowings of approximately RMB Nil (2016: RMB3,000,000 (equivalent to HK$3,349,000)) is secured by a contractual right to receive the revenue generated by Yichun Fangke, a non-wholly owned subsidiary of the Company, and carries variable interest rate ranging from 5.39% to 6.77% (2016: 5.39% to 6.77%) per annum.

(ii) Bank borrowings of approximately RMB Nil (2016: RMB4,000,000 (equivalent to HK$4,466,000)) is secured by a corporate guarantee from the Company, and carries variable interest rate ranging around 6.50% (2016: 6.50%) per annum.

(iii) Bank borrowings of approximately RMB Nil (2016: RMB5,930,000 (equivalent to HK$6,620,000)) is secured by a corporate guarantee from the New China Water(Nanjing), a wholly owned subsidiary of the Company, and carries fixed interest rate at 4.75% (2016: 4.75%) per annum.

(iv) Bank borrowings of approximately RMB9,900,000 (equivalent to HK$11,887,000) (2016: RMB13,300,000 (equivalent to HK$14,848,000)) is secured by a contractual right to receive the revenue generated by Gaoming Huaxin, a non-wholly owned subsidiary of the Company, and carries fixed interest rate 5.94% (2016: 5.94%) per annum.

On 12 December 2017, Gaoming Huaxin entered into an agreement with the bank to extend the bank borrowings of RMB9,900,000 (equivalent to HK$11,887,000) for three years. It carries fixed interest rate of 7.13% per annum.

(v) Bank borrowings of approximately RMB30,000,000 (equivalents to HK$36,021,000) is unsecured and carries fixed interest rate at 5.22% per annum.

(vi) Bank borrowings of approximately RMB12,000,000 (equivalent to HK$14,408,000) (2016: RMB22,000,000 (equivalent to HK$24,561,000)) is secured by a corporate guarantee from the Company, secured by the Company's equity interests in Shenzhen Li Sai and Huiming Technology, and carries fixed interest rate of 6.30% (2016: 6.30%) per annum.

(vii) Bank borrowings of approximately RMB5,000,000 (equivalent to HK$6,004,000) (2016: RMB10,000,000 (equivalent to HK$11,164,000)) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 4.75% (2016: 4.75%) per annum.

(viii) Bank borrowings of approximately RMB5,684,000 (equivalent to HK$6,825,000) (2016: RMB6,903,000 (equivalent to HK$7,706,000)) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 4.75% (2016: 4.75%) per annum.

(ix) Bank borrowings of approximately RMB13,900,000 (equivalents to HK$16,690,000) (2016: RMB14,900,000 (equivalents to HK$16,634,000)) carries fixed interest rate at 5.70% (2016: 5.70%) per annum.

Bank borrowings of approximately RMB33,489,000 (equivalents to HK$40,210,000) (2016: RMB30,120,000 (equivalents to HK$33,626,000)) carries fixed interest rate at 4.32% (2016: 4.32%) per annum.

These borrowings are secured by an wholly owned subsidiary of the Company's equity interest in Chenzhou Environmental, Hang Yang Environmental, Chengdu City Green State and Baoji.

(x) Bank borrowings of approximately RMB29,195,000 (equivalents to HK$35,055,000) is secured by an wholly owned subsidiary of the Company's equity interest in Hainan Camda and Chongqing Camda. It carries fixed interest rate at 4.75% per annum.

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31. OTHER LOANS

	2017	2016
	HK$'000	*HK$'000*
Other loans comprise of:		
Government loans *(note i)*	**84,591**	74,943
Loans from unrelated parties *(note ii)*	**1,920**	–
Fixed coupon bonds *(note iii)*	**355,765**	285,269
	442,276	360,212
Analysed as:		
Secured	**–**	–
Unsecured	**442,276**	360,212
	442,276	360,212

At 31 December 2017, the other loans were repayable as follows:

	2017	2016
	HK$'000	*HK$'000*
Overdue	**7,204**	6,698
On demand or within one year	**246,382**	288,567
More than one year but within two years	**–**	–
More than two years but within five years	**114,850**	–
More than five years	**73,840**	64,947
	442,276	360,212
Less: Amount due within one year shown under current liabilities	**(253,586)**	(295,265)
Amount due from one year shown under non-current liabilities	**188,690**	64,947

31. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2017, government loans of approximately HK$8,296,000 (2016: HK$7,713,000), HK$10,806,000 (2016: HK$10,048,000) and HK$65,489,000 (2016: HK$57,182,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 4.4% to 5.0% (2016: 4.4% to 5.0%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum (2016: 0.3% per annum).

As at 31 December 2017, government loans of HK$7,204,000 was due for repayment on or before 31 December 2017 (2016: HK$6,698,000 which was due for repayment on or before 31 December 2016), HK$3,547,000 are repayable on demand or within one year to eight years (2016: HK$12,229,000 were repayable on demand or within one year to nine years), and the remaining balances are repayable within thirteen years (2016: thirteen years) after completion of the relevant assets.

(ii) At 31 December 2017, loans from unrelated parties of approximately HK$1,920,000 (equivalent to RMB1,600,000) are fixed-rate borrowings carrying interest at 12% per annum and due for repayment on or before 5 January 2018 and fully settled in January 2018.

(iii) (a) On 14 June 2016, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$300 million, were issued on 14 June 2016 and 7 December 2016, respectively. These other loans will mature in one year from the date of issuance.

Series A Bond has matured and fully settled in 2017. Series B Bond has matured and partially settled. The outstanding balance of approximately HK$47.2 million was fully settled subsequent to the reporting period.

(b) On 5 September 2017, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$200 million, were issued on 5 September 2017 and 19 September 2017, respectively. These other loans will mature in one year from the date of issuance.

(c) Bonds I

On 25 October 2017, the Company entered into the placing agreement with the placing agent, for the purpose of arranging independent placees to subscribe for the bonds up to an aggregate principal amount of HK$100,000,000 within the placing period. The Company had completed the issuance of the bonds on 13 December 2017. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

(d) Bonds II

On 4 December 2017, the Company entered into the placing agreement with the placing agent, for the purpose of arranging independent placees to subscribe for the bonds up to an aggregate principal amount of HK$100,000,000 within the placing periods, which ended on 31 May 2018. As at 31 December 2017, HK$20,000,000 of bonds were issued. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. OBLIGATIONS UNDER FINANCE LEASES

	2017		2016	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	HK$'000	HK$'000	HK$'000
Within 1 year	**45,667**	**51,973**	10,444	12,235
After 1 year but within 2 years	**43,785**	**47,076**	11,382	12,235
After 2 years but within 5 years	**12,812**	**13,478**	8,938	9,176
	56,597	**60,554**	20,320	21,411
	102,264	**112,527**	30,764	33,646
Less: total future interest expenses		**(10,263)**		(2,882)
Present value of lease obligations		**102,264**		30,764

As at 31 December 2017 the Group entered into financing arrangements for purchase machineries with independent third-party leasing companies, in the form of sale and leaseback transactions which result in finance leases and the Group bears repurchase options. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods and the Group is certain that it will exercise the repurchase options, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using effective interest method in accordance with the accounting policy set out in Note 3(ad).

The finance lease of approximately HK$10.19 million (equivalent to RMB8.49 million) is secured by a contractual right to receive the revenue generated by certain subsidiaries of the Company.

33. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

34. LOANS FROM ASSOCIATES

As at 31 December 2017, a loan of HK$3,148,000 (2016: HK$2,927,000) from an associate was unsecured, carried interest at 4.35% (2016: 4.35%) per annum and was repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. CAPITAL AND RESERVES

(a) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital *HK$'000*	Share premium *HK$'000*	Investment revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2016	798,270	954,318	23,044	(581,696)	1,193,936
Changes in equity for 2016:					
Profit for the year	–	–	–	5,067	5,067
Other comprehensive income for the year:					
Fair value loss on available-for-sale investments	–	–	(13,400)	–	(13,400)
Reclassification on impairment of available-for-sale investments	–	–	9,704	–	9,704
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	(10,455)	–	(10,455)
Total comprehensive income for the year	–	–	(14,151)	5,067	(9,084)
At 31 December 2016 and 1 January 2017	**798,270**	**954,318**	**8,893**	**(576,629)**	**1,184,852**
Changes in equity for 2017:					
Loss for the year	**–**	**–**	**–**	**(119,839)**	**(119,839)**
Other comprehensive income for the year:					
Fair value loss on available-for-sale investments	**–**	**–**	**(1,368)**	**–**	**(1,368)**
Reclassification on impairment of available-for-sale investments	**–**	**–**	**1,774**	**–**	**1,774**
Reclassification adjustments relating to available-for-sale investments disposed of during the year	**–**	**–**	**(8,894)**	**–**	**(8,894)**
Total comprehensive loss for the year	**–**	**–**	**(8,488)**	**(119,839)**	**(128,327)**
At 31 December 2017	**798,270**	**954,318**	**405**	**(696,468)**	**1,056,525**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2017		2016	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each				
At 1 January and 31 December *(note i)*	**4,000,000**	**2,000,000**	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At 1 January and 31 December *(note ii)*	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,596,540**	**798,270**	1,596,540	798,270
At 31 December	**1,596,540**	**798,270**	1,596,540	798,270

Notes:

(i) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Convertible preference shares do not carry the right to vote and not be entitled to any dividend payment or any distribution of the Company. No right for return of capital in liquidation is available for distribution among the holders of Convertible Preference Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the 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.

(ii) Translation reserve

The translation 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 policy set out in note 3(ab).

(iii) Reserve fund

Reserve fund arises from (i) pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 3(o) and 3(p)(i).

(v) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in (note 3(g)) and investment properties (note 3(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. GOVERNMENT GRANTS

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**29,550**	17,256
Acquired through business combination	**1,642**	–
Additions	**13,204**	24,988
Recognised as other income for the year	**(11,978)**	(10,949)
Exchange realignment	**2,385**	(1,745)
At 31 December, classified as non-current liabilities	**34,803**	29,550

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network, electricity plant assets and water plant assets. During the year, certain projects related to the construction works have been completed and being used in the year. Deferred government grants of approximately HK$11,978,000 (2016: HK$10,949,000) was amortised and recognised in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits HK$'000	Service concession arrangements HK$'000	Exclusive rights HK$'000	Revaluation on investment property/ resumption property HK$'000	Property, plant and equipment transfer to investment properties HK$'000	Government grants HK$'000	Total HK$'000
At 1 January 2016	9,416	7,446	27,230	3,387	–	–	47,479
Charged/(credited) to profit or loss for the year	3,480	732	(2,245)	403	–	–	2,370
Arising from acquisition of subsidiaries *(note 38)*	–	–	9,216	–	–	–	9,216
Arising from revaluation on investment properties	–	–	–	–	1,196	–	1,196
Exchange realignment	(610)	(482)	(3,122)	(219)	–	–	(4,433)
At 31 December 2016 and 1 January 2017	**12,286**	**7,696**	**31,079**	**3,571**	**1,196**	**–**	**55,828**
Charged/(credited) to profit or loss for the year	**–**	**2,250**	**(7,443)**	**306**	**–**	**–**	**(4,887)**
Arising from acquisition of subsidiaries *(note 38)*	**–**	**–**	**15,144**	**–**	**–**	**(257)**	**14,887**
Arising from revaluation on investment properties	**–**	**–**	**–**	**–**	**439**	**–**	**439**
Exchange realignment	**928**	**581**	**1,774**	**269**	**90**	**(43)**	**3,599**
At 31 December 2017	**13,214**	**10,527**	**40,554**	**4,146**	**1,725**	**(300)**	**69,866**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

37. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

Reconciliation to the consolidated statements of financial position

	2017	2016
	HK$'000	*HK$'000*
Deferred tax assets	**(10,208)**	(9,342)
Deferred tax liabilities	**80,074**	65,170
	69,866	55,828

At 31 December 2017, the Group had unused tax losses of HK$93,517,000 (2016: HK$63,645,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. As at 31 December 2017, no tax losses can be carried forward indefinitely and tax losses of HK$93,517,000 (2016: HK$63,645,000) will expire in five years' time.

At 31 December 2017, the Group also has other deductible temporary differences of approximately HK$38,576,000 (2016: HK$69,343,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$245,257,000 (2016: HK$247,055,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES

The net assets acquired in the transaction and the goodwill arising are as follows:

2017

	(a) Chengdu City Green State HK$'000	(b) Ningbo Qiyao HK$'000	(c) Shandong Qiyao HK$'000	(d) Datang Huayin Xiangtan HK$'000	Total HK$'000
Property, plant and equipment	14	14,062	7,533	4,052	25,661
Concession intangible assets	38,806	–	–	–	38,806
Intangible assets	97,583	1,073	3,470	3,073	105,199
Deferred tax assets	–	715	136	–	851
Inventories	–	16	160	–	176
Prepaid lease payments	–	–	328	–	328
Trade and other receivables	17,882	1,555	1,544	23	21,004
Bank balances and cash	24,185	3,397	889	97	28,568
Trade and other payables	(62,216)	(13,179)	(13,542)	(5,334)	(94,271)
Government grants	–	(1,028)	–	(614)	(1,642)
Deferred tax liabilities	(14,414)	–	–	(1,324)	(15,738)
Total identified net assets/(liabilities)	101,840	6,611	518	(27)	108,942
Goodwill arising on acquisition of subsidiaries (Note 21)	11,840	76	1,343	1,126	14,385
Non-controlling interests	(57,977)	–	–	–	(57,977)
Total Consideration	55,703	6,687	1,861	1,099	65,350
Consideration paid in cash for the year ended 31 December 2017	55,703	6,687	1,861	1,099	65,350
Cash and cash equivalent balances acquired	(24,185)	(3,397)	(889)	(97)	(28,568)
Net cash outflow in the year ended 31 December 2017	31,518	3,290	972	1,002	36,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

2016

	(e) Baoji	(f) Chenzhou Environmental	(g) Heng Yang Environmental	(h) Chongqing Camda	(i) Hainan Camda	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	5,171	7,401	6,332	22,185	9,717	50,806
Intangible assets	4,576	–	2,134	19,831	5,658	32,199
Deferred tax assets	–	–	–	481	7	488
Deposit for acquisition of property, plant and equipment	–	–	–	72	–	72
Inventories	132	6	–	214	–	352
Trade and other receivables	4,853	3,063	1,227	12,291	8,667	30,101
Bank balances and cash	274	292	416	873	2,994	4,849
Trade and other payables	(760)	(530)	(1,043)	(10,608)	(5,140)	(18,081)
Deferred tax liabilities	(1,180)	(348)	(965)	(5,724)	(1,486)	(9,703)
Total identified net assets at fair value	13,066	9,884	8,101	39,615	20,417	91,083
Goodwill arising on acquisition of subsidiaries *(Note 21)*	1,433	6,717	4,943	2,533	–	15,626
Gain on bargain purchase arising on acquisition of a subsidiary *(Note 9)*	–	–	–	–	(1,808)	(1,808)
Total consideration	14,499	16,601	13,044	42,148	18,609	104,901
Consideration payable	(4,096)	–	–	(18,590)	–	(22,686)
Consideration paid in cash	10,403	16,601	13,044	23,558	18,609	82,215
Cash and cash equivalent balances acquired	(274)	(292)	(416)	(873)	(2,994)	(4,849)
Net cash outflow on acquisition of subsidiaries for the year ended 31 December 2016	10,129	16,309	12,628	22,685	15,615	77,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Chengdu City Green State

On 15 September 2015, New China Water (Nanjing) Renewable Resources Investment Company Limited ("New China Water (Nanjing)") entered into sale and purchase agreements with four independent parties, to acquire in aggregate of 49% equity interests of Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") (成都市綠州新再生能源有限責任公司). The acquisition was completed on 13 March 2017, the consideration for the acquisition was RMB49.5 million (equivalent to approximately HK$55.71 million). As the Group is entitled to appoint five out of seven members of the board of directors of Chengdu City Green State, the Group is able to control the operating and financial policies over Chengdu City Green State and therefore classified as an indirect non-wholly-owned subsidiary. Details of this acquisition are set out in the Company's announcement dated 15 September 2015. Chengdu City Green State is principally engaged in solid waste detox treatment and landfill gas power generation in Changan landfill site, Sichuan Province, for an operation period of 10.5 years until December 2027.

	HK$'000
Total consideration paid	55,703
Consideration payable	–
	55,703

The goodwill is attributable to Chengdu City Green State's strong position in the biogas power generation business in Chengdu City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$17,882,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2017, Chengdu City Green State contributed revenue and profit of HK$46,343,000 and HK$16,089,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$701,524,000 and HK$1,967,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Chengdu City Green State *(Continued)*

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	55,703
Bank balances and cash acquired	(24,185)
	31,518

(b) Ningbo Qiyao

On 15 December 2016, New China Water (Nanjing) and an independent third party entered into an acquisition agreement to acquire entire equity interests of Ningbo Qiyao New Energy Company Limited* ("Ningbo Qiyao") (寧波齊耀新能源有限公司) for a consideration of RMB5.92 million (equivalent to approximately HK$6.69 million). The acquisition was completed on 14 February 2017, on the date the control in Ningbo Qiyao was passed to the Group, since then, the Group is interested in 100% equity interests of Ningbo Qiyao. Details of this acquisition are set out in the Company's announcement dated 15 December 2016. Ningbo Qiyao is principally engaged in the operation of landfill gas power generation plant in Ningbo Yinzhou landfill, Ningbo City, Zhejiang Province, for an operation period of 18 years until June 2028.

	HK$'000
Total consideration paid	6,687
Consideration payable	–
	6,687

The goodwill is attributable to Ningbo Qiyao's strong position in the biogas power generation business in Ningbo City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$1,555,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2017, Ningbo Qiyao contributed revenue and profit of HK$14,411,000 and HK$7,457,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Ningbo Qiyao *(Continued)*

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$703,084,000 and HK$11,951,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	6,687
Bank balances and cash acquired	(3,397)
	3,290

(c) Shandong Qiyao

On 30 December 2016, New China Water (Nanjing) and an independent third party entered into an agreement to acquire entire equity interests of Shandong Qiyao New Energy Company Limited* ("Shandong Qiyao") (山東齊耀新能源有限公司) for a consideration of RMB1.65 million (equivalent to approximately HK$1.87 million). The acquisition was completed on 16 May 2017, on the date the control in Shandong Qiyao was passed to the Group, since then, the Group is interested in 100% equity interests of Shandong Qiyao. Details of this acquisition are set out in the Company's announcement dated 3 January 2017. Shandong Qiyao is principally engaged in operation of landfill gas power generation plant in Shandong Laiwu landfill, Laiwu City, Shandong Province, for an operation period of 20 years until November 2029.

	HK$'000
Total consideration paid	1,861
Consideration payable	–
	1,861

The goodwill is attributable to Shandong Qiyao's strong position in the biogas power generation business in Laiwu City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$1,544,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) Shandong Qiyao *(Continued)*

From the date of acquisition to 31 December 2017, Shandong Qiyao contributed revenue and profit of HK$5,760,000 and HK$3,004,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$702,791,000 and HK$10,676,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	1,861
Bank balances and cash acquired	(889)
	972

(d) Datang Huayin Xiangtan

On 23 January 2017, Shenzhen New China Water entered into acquisition agreements with two independent third parties, to acquire in aggregate of 100% equity interests of Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* ("Datang Huayin Xiangtan") (大唐華銀湘潭環保發電有限責任公司) for a consideration of RMB0.97 million (equivalent to approximately HK$1.10 million). The acquisition was completed on 24 February 2017, on the date the control in Datang Huayin Xiangtan was passed to the Group, since then, the Group is interested in 100% equity interests of Datang Huayin Xiangtan. Details of this acquisition are set out in the Company's announcement dated 23 January 2017. Datang Huayin Xiangtan is principally engaged in solid waste detox treatment and landfill gas power generation in Xiangtan Yuetang landfill, Xiangtan City, Hunan Province, for an operation period of 15 years until March 2024.

	HK$'000
Total consideration paid	1,099
Consideration payable	–
	1,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(d) Datang Huayin Xiangtan *(Continued)*

The goodwill is attributable to Datang Huayin Xiangtan's strong position in the biogas power generation business in Xiangtan City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$23,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2017, Datang Huayin Xiangtan contributed revenue and loss of HK$2,916,000 and HK$1,391,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$701,524,000 and HK$10,819,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	1,099
Bank balances and cash acquired	(97)
	1,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(e) Baoji

On 3 August 2015, New China Water (Nanjing) previously known as Greenspring (Nanjing) Recycling Resources Investment Company Limited, an indirectly wholly-owned subsidiary of the Company, entered into sale and purchase agreement with two independent parties to acquire the entire issued share capital of Baoji City Electric Power Development Co., Ltd* ("Baoji") for a cash consideration of RMB12.23 million (approximately HK$14.50 million). The acquisition was completed on 23 May 2016, on the date the control in Baoji was passed to the Group, since then, the Group is interested in 100% equity interests of Baoji. Details of this acquisition are set out in the Company's announcements dated 3 August 2015. Baoji is principally engaged in new energy and renewable energy development, investment and associated technical research and consulting service, energy saving technical research and application. Baoji currently possesses of a waste landfill resource utilization project in Baoji City landfill site for an operation period of 20 years until April 2028.

	HK$'000
Total consideration paid	10,403
Consideration payable	4,096
Total consideration paid and payable	14,499

The goodwill is attributable to Baoji's strong position in the biogas power generation business in Baoji City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$4,853,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2016, Baoji contributed revenue and loss of HK$2,051,000 and HK$209,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$551,333,000 and HK$84,475,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(e) Baoji *(Continued)*

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(10,403)
Bank balances and cash acquired	274
	(10,129)

(f) Chenzhou Environmental

On 21 September 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") for a cash consideration of RMB14 million (approximately HK$16.60 million). The acquisition was completed on 3 March 2016, on the date the control in Chenzhou Environmental was passed to the Group, since then, the Group is interested in 100% equity interests of Chenzhou Environmental. Details of this acquisition are set out in the Company's announcements dated 21 September 2015. Chenzhou Environmental is principally engaged in solid waste detox treatment and landfill gas power generation in Xiangshan Ping, Suxian District, Chenzhou City, Hunan Province, for an operation period of 20 years until 29 February 2032.

	HK$'000
Total consideration paid	16,601
Consideration payable	–
Total consideration paid and payable	16,601

The goodwill is attributable to Chenzhou Environmental's strong position in the biogas power generation business in Chenzhou, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(f) Chenzhou Environmental *(Continued)*

The fair value of trade and other receivables at the date of acquisition of HK$3,063,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2016, Chenzhou Environmental contributed revenue and loss of HK$1,792,000 and HK$59,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$550,656,000 and HK$84,448,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(16,601)
Bank balances and cash acquired	292
	(16,309)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(g) Heng Yang Environmental

On 21 September 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") for a cash consideration of RMB11 million (approximately HK$13.04 million). The acquisition was completed on 3 March 2016, on the date the control in Heng Yang Environmental was passed to the Group, since then, the Group is interested in 100% equity interests of Heng Yang Environmental. Details of this acquisition are set out in the Company's announcements dated 21 September 2015. Heng Yang Environmental is principally engaged in solid waste detox treatment and landfill gas power generation in Zhang Mu Town, Hengyang County, Hunan Province, for an operation period of 20 years until October 2029.

	HK$'000
Total consideration paid	13,044
Consideration payable	–
Total consideration paid and payable	13,044

The above goodwill is attributable to Heng Yang Environmental's strong position in the biogas power generation business in Heng Yang, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$1,227,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2016, Heng Yang Environmental contributed revenue and profit of HK$6,226,000 and HK$1,797,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$551,003,000 and HK$84,698,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(g) Heng Yang Environmental *(Continued)*

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(13,044)
Bank balances and cash acquired	416
	(12,628)

(h) Chongqing Camda

On 25 November 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") for a cash consideration of RMB35.43 million (approximately HK$42.15 million). The acquisition was completed on 13 May 2016, on the date the control in Chongqing Camda was passed to the Group, since then, the Group is interested in 100% equity interests of Chongqing Camda. Details of this acquisition are set out in the Company's announcements dated 25 November 2015. Chongqing Camda currently operates the Chongqing Changshengqiao Landfill gas collection and power generation project until May 2028 pursuant to the Chongqing Changshengqiao Landfill gas collection project cooperation agreement* (重慶長生橋垃圾衛生填埋場沼氣收集和利用項目合作協定書), granting the cooperation right to invest, construct, operate, maintenance and transfer the landfill project and in return to obtain a portion of the landfill's operating earnings for 21 years.

	HK$'000
Total consideration paid	23,558
Consideration payable	18,590
Total consideration paid and payable	42,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(h) Chongqing Camda *(Continued)*

The above goodwill is attributable to Chongqing Camda's strong position in the biogas power generation business in Chongqing, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$12,291,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2016, Chongqing Camda contributed revenue and profit of HK$6,146,000 and HK$1,993,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$570,583,000 and HK$87,262,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(23,558)
Bank balances and cash acquired	873
	(22,685)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Hainan Camda

On 25 November 2015, New China Water (Nanjing) entered into sale and purchase agreement with an independent party to acquire the entire issued share capital of Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") for a cash consideration of RMB15.72 million (approximately HK$18.61 million). The acquisition was completed on 27 May 2016, on the date the control in Hainan Camda was passed to the Group, since then, the Group is interested in 100% equity interests of Hainan Camda. Details of this acquisition are set out in the Company's announcements dated 25 November 2015. Hainan Camda currently operates the Haikou City Yan Chunling Landfill gas utilization and power generation project*. Pursuant to the Haikou City Yan Chunling Landfill gas utilization project cooperation agreement* (海口市顏春嶺垃圾填埋氣沼氣利用合同書) entered into on 2 November 2007, Hainan Camda may collect and use the landfill gas in the Haikou City Yan Chunling Landfill until the volume of landfill gas generated from Haikou City Yan Chunling Landfill reduced to the level of which could not be further utilized.

	HK$'000
Total consideration paid	18,609
Consideration payable	–
Total consideration paid and payable	18,609

The fair value of trade and other receivables at the date of acquisition of HK$8,667,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2016, Hainan Camda contributed revenue and profit of HK$6,013,000 and HK$1,210,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2016.

Had the business combination been effected on 1 January 2016, the revenue and profit of the Group for the year ended 31 December 2016 would have been HK$555,551,000 and HK$87,582,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. ACQUISITION OF SUBSIDIARIES *(Continued)*

(i) Hainan Camda *(Continued)*

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(18,609)
Bank balances and cash acquires	2,994
	(15,615)

39. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:

	2017	2016
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of concession intangible assets, plant and equipment *(note)*	**155,711**	29,683
	155,711	29,683

Note: At 31 December 2017, the amount represented capital commitment contracted but not provided for acquisition of plant and equipment and concession intangible assets of HK$150,796,000 (2016:HK$21,775,000) and HK$4,915,000 (2016: HK$7,908,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

40. OPERATING LEASES

The Group as lessee

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are typically run for an initial period of three months to fifteen years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**5,903**	5,249
After one year but within five years	**5,854**	1,398
After five years	**97**	–
	11,854	6,647

The Group as lessor

Property rental income earned during the year was approximately HK$2,116,000 (2016: HK$1,458,000) (note 9).

As at 31 December 2017, the properties were expected to generate rental yields of ranging 7% to 9% per annum (2016: 7% per annum) on an ongoing basis. The properties had committed tenants for eighteen years and none of the leases includes contingent rentals.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**2,928**	1,183
After one year but within five years	**9,615**	5,118
After five years	**12,491**	13,238
	25,034	19,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

Share options granted to connected person and its associates is subject to the approval of the Independent Non-Executive Directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any of their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 December 2017 and 2016, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme. Effective from 1 June 2014, the cap of monthly relevant income was $30,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the Central Pension Scheme ("CPS") CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPS.

The total cost charged to the consolidated statement of profit or loss of approximately HK$15,767,000 (2016: HK$15,417,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment in subsidiaries		**2**	2
Available-for-sale investments		**18,601**	90,437
		18,603	90,439
Current assets			
Financial assets at fair value through profit or loss		**40,576**	232,808
Other receivables		**140,415**	56,844
Amounts due from subsidiaries		**1,229,501**	1,106,986
Cash held by financial institutions		**323**	310
Bank balances and cash		**5,722**	17,717
		1,416,537	1,414,665
Current liabilities			
Other payables		**2,584**	3,925
Other loans		**240,914**	285,269
Overdraft		**20,266**	31,058
		263,764	320,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	Note	**2017** **HK$'000**	2016 HK$'000
Net current assets		**1,152,773**	1,094,413
Total assets less current liabilities		**1,171,376**	1,184,852
Capital and reserves			
Share capital	*35*	**798,270**	798,270
Reserves	*35*	**258,255**	386,582
Total equity		**1,056,525**	1,184,852
Non-current liabilities			
Other loans		**114,851**	–
		1,171,376	1,184,852

Approved and authorised for issue by the board of directors on 28 March 2018:

Lin Yue Hui
Director

Liu Feng
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The emoluments paid or payable to each of the 9 (2016: 9) directors and chief executive were as follows:

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2017 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Wang De Yin (Resigned on 21 April 2017)	–	**1,845**	–	**16**	**1,861**
Liu Feng	–	**1,080**	–	**48**	**1,128**
Lin Yue Hui	–	**1,160**	–	**18**	**1,178**
Chu Yin Yin, Georgiana	–	**1,080**	–	**18**	**1,098**
Deng Xiao Ting	–	**1,200**	–	**39**	**1,239**
Deng Jun Jie (Appointed on 21 April 2017)	–	**83**	–	**4**	**87**
	–	**6,448**	–	**143**	**6,591**
Independent Non-Executive Directors					
Guo Chao Tian	–	**144**	–	–	**144**
Wong Siu Keung, Joe	–	**144**	–	–	**144**
Qiu Na	–	**144**	–	–	**144**
	–	**432**	–	–	**432**
	–	**6,880**	–	**143**	**7,023**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

44. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2016 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Wang De Yin	–	2,730	726	18	3,474
Liu Feng	–	1,260	424	18	1,702
Lin Yue Hui	–	1,260	424	18	1,702
Chu Yin Yin, Georgiana	–	1,260	424	18	1,702
Deng Xiao Ting	–	1,680	424	17	2,121
	–	8,190	2,422	89	10,701
Independent Non-Executive Directors					
Guo Chao Tian	168	–	–	–	168
Li Jian Jun (Resigned on 21 September 2016)	120	–	–	–	120
Wong Siu Keung, Joe	168	–	–	–	168
Qiu Na	43	–	–	–	43
	499	–	–	–	499
	499	8,190	2,422	89	11,200

There was no arrangement under which directors and chief executive have waived or agreed to waive any emoluments during the two years ended 31 December 2017 and 2016.

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. LITIGATIONS AND ARBITRATION

(a) Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "Kunming Court") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the date of approval of these financial statements, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "Guarantors") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "Settlement Agreement"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

* The English names are for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. LITIGATIONS AND ARBITRATION *(Continued)*

(b) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (collectively as the "Lenders") entered into repayment agreements (the "Repayment Agreements") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Top Vision Management Limited ("Top Vision") (collectively as the "Borrowers") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58.43 million together with interest accrued thereon (the "Loan Receivables"). HK$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the remaining Loan Receivables of HK$53.43 million (the "Remaining Loan Receivables") plus underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Lenders on or before 21 March 2014 (the "Partial Payment of the Remaining Loan Receivables"). Nevertheless, Swift Surplus and Top Vision and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "Outstanding Balance"). Despite the Company several requests and demands, Top Vision failed to effect payment of the Outstanding Balance. On 14 May 2013, the Company instructed its legal counsel to file the writ of summons (the "Writ") to the High Court of Hong Kong Special Administrative Region (the "High Court") to recover the Outstanding Balance from Top Vision. On 25 June 2013, the High Court adjudged a final judgment that Top Vision shall pay the Outstanding Balance to Swift Surplus (the "Final Judgement"). Top Vision has not performed the repayment obligation under the judgment issued by the High Court. The Company cannot locate any asset of Top Vision in Hong Kong. As advised by the legal counsel, without information on the assets of Top Vision in Hong Kong, the Company cannot enforce the Final Judgment against Top Vision. As the major assets owned by the subsidiaries of Top Vision are located in Guangdong Province, the PRC, the Company had undertaken recovery actions including but not limited to legal actions taken in PRC to collect the Remaining Loan Receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. LITIGATIONS AND ARBITRATION *(Continued)*

(b) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company *(Continued)*

On 20 August 2014, a petition was filed by Galaxaco Reservoir Holdings Limited ("Galaxaco") to wind up Top Vision, one of the creditors of Top Vision. Top Vision has now been wound up by the High Court by a Winding-up Order under Companies Winding-up Proceedings No.157/2014 and the first meeting of creditors of Top Vision was held on 30 October 2014 for the appointment of provisional of liquidator. On 14 January 2015, the solicitors act for Galaxaco requested the High Court to have the hearing adjourned for the appointment of liquidators (the "Appointment") pending the alleged negotiation settlement between Top Vision and all creditors including the Company and its subsidiary of Swift Surplus and Galaxaco. On 4 May 2015, The High Court appointed SHINEWING Specialist Advisory Services Limited as liquidators ("Liquidators"). The Liquidators have carried out the site visits and performed the investigation on PRC subsidiary of Top Vision. On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("PRC Judgement"). On 27 January 2016, the PRC Judgement was announced on the website of The People's Court Announcement for 60 days ("Announcement Period"). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period, the PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. In 2016, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowings and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. (Tai Heng") without payment of purchase consideration of RMB1 million. In light of this, Liquidators have through their solicitors issued a protected writ in the High Court against Tai Heng for recovery of a debt in the sum around HK$3.80 million plus interest and costs. Up to the date of this report, no substantial assets have yet been preserved or recovered. As at 31 December 2017 and 31 December 2016, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. LITIGATIONS AND ARBITRATION *(Continued)*

(b) Swift Surplus Holdings Limited, an indirect wholly-owned subsidiary of the Company *(Continued)*

At 31 December 2017 and 2016, the long outstanding loan receivables from three other borrowers totaled HK$11.25 million, were fully impaired.

The Board believed that there will be no significant financial impact on the Group as sufficient impairment loss on the Loan Receivables has been provided. It is unlikely that there will be a material adverse financial impact to the Group.

Save as disclosed above, the Group is not aware of any other significant proceedings instituted against the Company.

* The English names are for identification purpose only.

46. MATERIAL RELATED PARTY TRANSACTIONS

(a) The balances with related parties at the end of the reporting period are disclosed elsewhere in the consolidated financial statements.

(b) Compensation of key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 44, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**10,235**	14,478
Post-employment benefits	**164**	101
	10,399	14,579

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

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For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Key requirements of HKFRS 9

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

HKFRS 16 Leases

As disclosed in note 3(ac), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 40, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$11,854,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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For the year ended 31 December 2017

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 October 2017, Shenzhen New China Water entered into a sale and purchase agreement with Hunan Xingtuo New Energy Company Limited* (湖南興拓新能源有限公司) to acquire entire equity interests of the Ankang Xingtuo Environmental Power Generation Company Limited* (安康興拓環保發電有限公司), (which principally engages in operation of landfill gas power generation plant in Shanxi Province, the PRC.) at a consideration of approximately RMB2.85 million (equivalent to approximately HK$3.36 million).

As at 31 December 2017, no consideration has been paid by the Shenzhen New China Water. Up to the date of the report, the acquisition has not yet completed. Details of the acquisition have been set out in the Company's announcement dated 24 October 2017.

(b) On 10 November 2017, Victory Strategy Investment Limited, PT. Navigat Organic Energy Indonesia and Zeus Capital Limited entered into a Subcontract Cooperation Agreement to cooperate on the landfill gas power generation project in Jakarta TPST Landfill.

Victory Strategy Investment Limited will invest approximately HK$35 million to the project company. Up to the date of the report, the project company namely PT. CWI Energy Indonesia was set up. Details of the acquisition have been set out in the Company's announcement dated 10 November 2017.

The directors of the Company strongly believe that the project, which allow the Group to expand into waste treatment and environment protection industry in Indonesia, is an investment opportunity which is consistent with the long-term business strategy of the Group.

(c) On 22 November 2017, Shenzhen New China Water entered into a sale and purchase agreement with Grand Energy Group Co., Ltd.* ("**Grand Energy.**") (弘翔能源集團有限公司) to acquire 90% equity interests of the Dongyang Grand Energy Co., Ltd.* (東陽弘翔新能源有限公司), (which principally engages in operation of landfill gas power generation plant in Dongyang city, Zhejiang Province, the PRC.) at a consideration of approximately RMB22.95 million (equivalent to approximately HK$27.56 million).

As at 31 December 2017, no consideration has been paid by the Shenzhen New China Water. Up to the date of the report, the acquisition was completed in March 2018.

The directors of the Company strongly believe that the acquisitions, which allow the Group to expand into waste treatment and environment protection industry in Zhejiang Province, is an investment opportunity which is consistent with the long-term business strategy of the Group. Due to the timing of the transaction, the Group is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The Group has not yet been able to analyse all books and records of target companies and therefore the initial accounting for the business combination is still incomplete. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition, such as fair values of assets acquired and liabilities assumed, goodwill recognised (if any) and acquisition-related costs, including the financial information and information of the acquisition have not been presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

48. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(d) Placing of Bond III

On 11 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement III**") with Prior Securities Limited (the "**Placing Agent III**") pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond III**"), within 365 days from the date of the Placing Agreement III. Subsequent to the end of the reporting period, the placing of Bond III has not been completed.

(e) Placing of Bond IV

On 18 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement IV**") with Prior Securities Limited (the "**Placing Agent IV**") pursuant to which the Placing Agent IV on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of 90 months in aggregate principal amount of up to HK$100 million ("**Bond IV**"), within 365 days from the date of the Placing Agreement IV. Subsequent to the end of the reporting period, the placing of Bond IV has not been completed.

* The English names are for identification purpose only.

49. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.