Annual Report 2017

TECHNOLOGIES UNIVERSAL

Universal Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1026

Contents

Highlights of the Year

— Revenue for the year ended 31 December 2017 amounted to HK$248.54 million (2016: HK$444.35 million, of which HK$137.68 million classified under discontinued operations and HK$306.67 million classified as continuing operations), representing a decrease in revenue of HK$58.13 million or 19% as compared to the revenue from continuing operations last year. Decrease in revenue was mainly due to the completion of the construction of Taihe Water Plant Phase 2 in 2016, resulting in decrease in construction service income under BOT water plant project.

— Net profit attributable to shareholders of the Company for the year ended 31 December 2017 was HK$2.66 million (2016: net loss attributable to shareholders of the Company of HK$25.17 million), representing an increase by HK$27.83 million of 111% as compared with the year ended 31 December 2016. Turnaround from loss to profit for the year of the Group was mainly due to (i) the absence of net loss from International Payment Solutions Holdings Limited and its subsidiaries ("Payment Co Group") which was disposed in December 2016; and (ii) the exchange gain on Renminbi denominated assets of the Group arising from the appreciation of Renminbi.

— Basic and diluted earning per share for the year ended 31 December 2017 amounted to HK$0.13 cent and HK$0.13 cent, respectively (Basic and diluted loss per share for the year ended 31 December 2016: HK$1.19 cents and HK$1.19 cents, respectively).

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Chen Jinyang *(Chairman)*
Chau Cheuk Wah *(Chief Executive Officer)*
Zhou Jianhui
Zhu Fenglian
Zhang Haimei (re-designated on 23 April 2018)

Non-Executive Director:

Xuan Zhensheng (appointed on 23 April 2018)

Independent Non-Executive Directors:

Dr. Cheung Wai Bun, Charles, *J.P.*
David Tsoi
Chao Pao Shu George

COMPANY SECRETARY

Tang Chi Wai

AUDIT COMMITTEE

David Tsoi *(Chairman)*
Dr. Cheung Wai Bun, Charles, *J.P.*
Chao Pao Shu George

AUTHORISED REPRESENTATIVES

Chen Jinyang
Tang Chi Wai

AUDITOR

PKF Hong Kong Limited
Certified Public Accountants

WEBSITE

www.uth.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room A & B2, 11th Floor,
Guangdong Investment Tower,
No.148 Connaught Road Central,
Sheung Wan, Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor,
24 Shedden Road,
P.O. Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Room 1712-16, 17th Floor,
Hopewell Centre
183 Queen's Road East,
Wanchai Hong Kong

PRINCIPAL BANKER

Dah Sing Bank

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Universal Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017.

In 2017, the Group recorded total revenue of HK$248.54 million, representing a decrease of 19% as compared with the revenue of HK$306.67 million last year. The decrease was mainly due to the completion of the construction of Taihe Water Plant Phase 2 in 2016, resulting in a significant decrease in construction service income under BOT water plant project for the year. Despite the decrease in revenue, the Group recorded a net profit of HK$2.66 million in 2017, representing an increase of 111% from a net loss of HK$25.17 million for last year, principally due to the currency exchange gain on Renminbi denominated assets of the Group and the disposal of the loss-making payment business in 2016. The Group's gearing ratio improved from 57% last year to 55% in 2017.

In 2017, China's economy grew by 6.9%, beating the state target of 6.5% and seeing an acceleration in annual growth for the first time in seven years. Despite the economy growth, the operating environment of enterprises in China of different industries faced different challenges, including the tightening of bank credit, fluctuation of raw material price and increase in labour cost. To cope with these challenges, the Group adopted measures with the view to enhancing technology standard, improving service quality and operation efficiency. We also actively looked for business opportunities with the view to diversifying income stream and market risks.

The Group attaches great importance to sustainable growth, staff training, internal control, risk management and corporate governance. During the course of creating shareholders' value, the Company paid due regard to social responsibility.

In 2018, the Group will continue to focus on its existing principal businesses of water supply and property investment and development. We expect that the water supply business will continue to provide the Group with stable revenue. The Group will strive to explore good property projects in China and overseas to spread risk. In addition, the Group will focus on mature markets of first-tier cities in China and developed countries to minimize risk, while being more realistic in terms of investment or development return. The Group will also explore other feasible opportunities for investment so as to generate revenue from diversified sources and ensure sustainable growth.

On behalf of the Board, I would like to express my gratitude to our staff for their commitments and efforts and to our shareholders and business partners for their continued support.

Chen Jinyang
Chairman

Hong Kong, 29 March 2018

Management Discussion and Analysis

FINANCIAL OVERVIEW

Continuing Operations

Revenue and profit for the year

During the current fiscal year, the Group recorded a revenue of HK$248,536,000, representing a decrease by 19% or HK$58,135,000 as compared with last year's revenue under continuing operations. Profit attributable to shareholders of the Company for the year ended 31 December 2017 was HK$2,660,000, representing an increase in profit attributable to shareholders of the Company of 111% as compared to last fiscal year. Decrease in revenue was mainly due to the completion of the construction of Taihe Water Plant Phase 2 in 2016, resulting in a decrease in construction service income under BOT water plant project. The increase in net profit was mainly attributable to (i) the absence of net loss from the Payment Co Group which was disposed in December 2016 and (ii) the exchange gain on Renminbi denominated assets of the Group as a result of the appreciation of Renminbi.

Cost of sales/services rendered

During the current fiscal year, the Group recorded a cost of sales/services rendered in the amount of HK$155,917,000, representing a decrease of HK$38,826,000 as compared to the last fiscal year. The decrease of cost of sales/services rendered was mainly attributable to decrease in the construction service cost under BOT water plant project.

Other revenue

During the current fiscal year, the Group recorded other revenue of HK$10,994,000, representing an increase of 22% as compared with the last fiscal year. Other revenue mainly represents bank interest income from Water Supply Group business.

Other income

During the current fiscal year, the Group recorded other income of HK$21,755,000, representing an increase of 79% as compared with the last fiscal year. Other income in the current year mainly represents exchange gain on Renminbi denominated assets of the Group arising from the appreciation of Renminbi, while other income in the last fiscal year was mainly contributed by the gain on early extinguishment of bank loans, representing the difference between the carrying value of the previous bank loans and the consideration paid to settle the loan.

General and administrative expenses

During the current fiscal year, the Group recorded general and administrative expenses of HK$63,070,000, representing a decrease of 13% as compared with the last fiscal year. During the current fiscal year, general and administrative expenses decreased in terms of exchange loss and other expenses.

FINANCIAL OVERVIEW *(continued)*

Finance costs

During the current fiscal year, the Group recorded finance costs of HK$27,235,000, representing an increase of 17% as compared with the last fiscal year. It was mainly due to the increase in interest rate on bank loan of the Group.

Income tax expense

During the current fiscal year, the Group recorded an income tax expense of HK$15,326,000, representing a decrease of 35% as compared with the last fiscal year. It was mainly due to decrease in profit of Water Group.

Property, plant and equipment

The Group's property, plant and equipment increased by HK$44,720,000 from HK$459,154,000 as at 31 December 2016 to HK$503,874,000 as at 31 December 2017. The increase was due to reclassification of certain investment properties as property, plant and equipment and additions in construction in progress on water pipeline during the current fiscal year.

Prepaid land lease premium

The Group's prepaid land lease premium increased by HK$8,913,000 from HK$22,313,000 as at 31 December 2016 to HK$31,226,000 as at 31 December 2017. The increase was mainly due to the reclassification of certain investment properties to prepaid land lease premium during the current fiscal year.

Intangible assets

The Group's intangible assets increased by HK$13,230,000 from HK$398,112,000 as at 31 December 2016 to HK$411,342,000 as at 31 December 2017. The increase was mainly attributable to the completion of the construction of Taihe Water Plant phase 2, resulting in the increase in value of the consideration received or receivable in exchange for the construction services during the current year, which was recognised by the Group as intangible assets due to the Group's right to charge users of the water supply service under service concession arrangement.

Goodwill

The Group's goodwill increased by HK$8,747,000 from HK$90,290,000 as at 31 December 2016 to HK$99,037,000 as at 31 December 2017. The increase in goodwill was mainly attributable to the acquisition of a licensed corporation licensed by Hong Kong Securities and Future Commission to conduct type 9 (asset management) regulated activities during the current year.

FINANCIAL OVERVIEW *(continued)*

Investment properties

The Group's investment properties increased by HK$5,955,000 or 13% from HK$44,820,000 as at 31 December 2016 to HK$50,775,000 as at 31 December 2017. It was mainly attributable to the increase in fair value of investment properties during the current year.

Debtors

The Group's debtors increased by HK$3,151,000 or 14% from HK$23,154,000 as at 31 December 2016 to HK$26,305,000 as at 31 December 2017. The increase in debtors was attributable to growth of water supply and related services business during the year.

Deposits, prepayments and other receivables

The Group's deposits, prepayments and other receivables increased by HK$3,678,000 from HK$7,024,000 as at 31 December 2016 to HK$10,702,000 as at 31 December 2017. The increase was mainly attributable to increase in fixed deposit interest receivables and other receivables of Water Supply Group during the year, primarily due to the increase in interest rate of fixed deposit during the year. Other receivable of Water Supply Group represents compensation and service fee receivable from the PRC government for last year that has not been settled.

Cash and bank balances and fixed deposits

The Group's cash and bank balances and fixed deposits decreased by HK$126,499,000 from HK$437,635,000 as at 31 December 2016 to HK$311,136,000 as at 31 December 2017. The decrease in cash and bank balances and fixed deposits was mainly due to the settlement of bank loans by Water Supply Group business, payment of dividend and construction fee under BOT water plant project in current year. As at 31 December 2017, 59% (31 December 2016: 54%) of cash and bank balances was denominated in Renminbi.

Pledged time deposit

The Group's pledged time deposit increased by HK$28,341,000 from HK$262,898,000 as at 31 December 2016 to HK$291,239,000 as at 31 December 2017. The pledged time deposit was denominated in Renminbi, and the increase was due to the appreciation of Renminbi.

Bank and other borrowings

The Group's bank and other borrowings decreased by HK$519,000 from HK$710,371,000 as at 31 December 2016 to HK$709,852,000 as at 31 December 2017. The decrease was mainly attributable to the settlement of bank loans by the Water Supply Group business.

FINANCIAL OVERVIEW *(continued)*

Trade payables

The Group's trade payable increased by HK$30,721,000 from HK$2,433,000 as at 31 December 2016 to HK$33,154,000 as at 31 December 2017. The increase was mainly attributable to the increase of water resources charges payable to the PRC government.

Payable to merchants

The Group's payable to merchants as at 31 December 2017 amounted to approximately HK$3,017,000, which is similar to the figure as at 31 December 2016.

Deposits received, sundry creditors and accruals

The Group's deposits received, sundry creditors and accruals decreased by HK$16,401,000 from HK$193,646,000 as at 31 December 2016 to HK$177,245,000 as at 31 December 2017. The decrease was mainly attributable to the settlement of most of construction fee payables for the year.

Amounts due to related companies

Amounts due to related companies decreased by HK$37,116,000 or 49% from HK$76,499,000 as at 31 December 2016 to HK$39,383,000 as at 31 December 2017. The amounts represent advances from related companies. The decrease was mainly attributable to the partial settlement to related companies on the advance. The advances are unsecured, interest-free and repayable on demand.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had net current assets of HK$43,386,000. Current assets comprised inventories of HK$4,713,000, debtors of HK$26,305,000, deposits, prepayments and other receivables of HK$10,702,000, prepaid land lease premium of HK$693,000, fixed deposits of HK$80,716,000, pledged time deposit of HK$291,239,000 and cash and bank balances of HK$230,420,000.

Current liabilities comprised bank and other borrowings of HK$344,968,000, trade payables of HK$33,154,000, payable to merchants of HK$3,017,000, deposits received, sundry creditors and accruals of HK$177,245,000, amounts due to related companies of the HK$39,383,000 and tax payable of HK$3,635,000.

The gearing ratio, which is defined as a percentage of the total liabilities (excluding deferred tax liability) over the total assets (excluding deferred tax assets), of the Group as at 31 December 2017 was 55% (2016: 57%).

The Board considers that the Group's existing financial resources are sufficient to fulfill its current commitments and working capital requirements, and the Group should be able to fund its foreseeable expenditures through cash flows from operations. However, if the Group launch any massive scale of expansion, development, investment or acquisition, additional debt or equity financing may be required.

BUSINESS REVIEW AND PROSPECTS

Review

For the financial year 2017, the Group was principally engaged in the businesses of water supply and related services as well as property investment and development. Revenue from principal businesses amounted to approximately HK$248,536,000, representing a decrease of 19% or approximately HK$58,135,000 as compared with the continuing operating revenue of approximately HK$306,671,000 for last year. The decrease in revenue was mainly due to the completion of the construction of Water Treatment Plant Phase 2 of Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Water"), a subsidiary of Qinghui Properties Limited in 2016, among which the construction service income under build-operate-transfer (BOT) project accounted for 28% of the continuing operating revenue for 2016 and such revenue decreased significantly for the current year. Excluding the construction service income, the Group's revenue from water supply and related services increased by 9.7% as compared with last year, which was mainly attributable to the increasing demand on water supply as the city continued its expansion.

Following completion of the acquisition of 49% equity interest in Qinghui Properties Limited (which together with its subsidiaries, collectively the "**Water Supply Group**") at the end of 2015, the Group consolidated the financial statements of the Water Supply Group under its new water supply segment. Taihe Water has a service concession arrangement with the governmental authority in Qingyuan City, Guangdong Province, China, whereby it acts as the operator in the construction of water supply plants on a build-operate-transfer ("**BOT**") basis and operating and maintaining these water supply plants at specified performance standards for a period of 20 years from 21 November 2006 to 21 November 2026 (the "**Service Concession Periods**"). In return, the Water Supply Group receives service charges to be fixed by stipulated pricing adjustment mechanisms. As the Group has the right to charge users for the water supply services, under HK(IFRIC) Interpretation 12, the Group recognizes construction revenue in respect of the consideration received or receivable in exchange for construction services rendered, which is recognized as intangible assets in its statement of financial position.

During the year under review, the water volume sold from water plants under the water supply business reached 139,319,000 cubic meters (m^3), representing an increase of 14.8% as compared with last year. Revenue from water supply related business (including water quality test, water pipe repairs and maintenance, water meter maintenance and replacement and other related services) amounted to HK$32,532,000, representing an increase of 7.5% as compared with last year.

In addition to enhancing its market competitiveness, the Group also endeavored to maintain high level of social responsibility. Through the provision of staff and management training, enhancement of internal control systems, improvement of customer services, strict compliance with international standardization of quality, safety and environment, as well as regular maintenance, upgrades and construction work, the Group was able to ensure safety and quality of its water supply so as to increase its production efficiency steadily.

BUSINESS REVIEW AND PROSPECTS *(continued)*

Review *(continued)*

During the year under review, the Group's revenue from property investment and development segment amounted to approximately HK$2,423,000, representing a decrease of 23% as compared with last year, mainly due to the decrease in rental income as a result of the disposal of the Payment Co Group, which was included in the rental income in December 2016. Excluding the property income rental from the Payment Co Group, the Group's rental income increased by 6.8% as compared with last year. The modest increase in rental income was resulted from higher rental level and a higher leasehold occupancy rate for the year. The property development and investment segment contributed stable recurring income and positive cash flow to the Group.

In September 2016, the Group entered into an acquisition agreement to acquire 100% shareholding in Hooray Asset Management Limited, a licensed corporation licensed by Hong Kong Securities and Futures Commission to conduct Type 9 (asset management) regulated activities. The acquisition was completed in June 2017. With many years of experience in business operations in China and Hong Kong, the Group considered that it was well positioned to capitalize our extensive business networks in China by diversifying into financial services industry, in particular the asset management sector.

As part of our environmental, social and governance initiatives, the Group offered training to all staff, provided equal opportunities to eligible candidates and retained all outstanding staff members. All employees were provided ample development chances and satisfying and safe working environment, with the view to developing talents, skills and sense of belonging within the Group. In addition, the Group is dedicated to high corporate governance and internal control standards, setting out key performance indicators and review processes to improve management effectiveness and efficiency.

PROSPECTS

In 2018, the Group will continue to focus on its existing principal businesses of water supply and property investment and development.

The population and economy growth of Qingyuan City is expected to accelerate with the implementation of "Guangzhou-Qingyuan integration" and the national policy of "Guangdong-Hong Kong-Macao Bay Area". We expect that the water supply business will continue to provide the Group with stable revenue.

Since early 2018, the global economy has seen a period of instability and fluctuation due to the combined effect of intensified expectation on US interest hike, geopolitical tension in middle-east and North Asia and the rise of international trade protectionism. In China, the continual implementation of macro-tightening measures in residential property market are expected to create pressure on the pace of property development and industry profit margin. The Group will strive to explore good property projects in China and overseas to spread risk. In addition, the Group will focus on mature markets of first-tier cities in China and developed countries to minimize risk, while being more realistic in terms of investment or development return. The Group will also explore other feasible opportunities for investment so as to generate revenue from diversified sources and ensure sustainable growth.

EMPLOYEES

As at 31 December 2017, the total number of employees of the Group was 366 (2016: 383). The remuneration of the employees (including directors) were determined according to their performance and work experience. In addition to basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to the Group's performance as well as the individual's performance. The Group also provides social security benefits to its staff such as Mandatory Provident Fund Scheme in Hong Kong and the central pension scheme in the PRC.

The dedication and contribution of the Group's staff during the year are greatly appreciated and acknowledged.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 20 September 2016, Universal Technologies Capital Holdings Limited ("**UTCHL**"), a direct wholly-owned subsidiary of the Company, and Ever City Industrial Development Limited ("**Ever City**") entered into the acquisition agreement (the "**Acquisition Agreement**"), pursuant to which UTCHL conditionally agreed to acquire from Ever City, and Ever City conditionally agreed to sell, the entire issued share capital of Hooray for a total cash consideration of HK$9,000,000. Ever City is a controlled corporation of Ms. Zhu Fenglian (an executive Director and a substantial shareholder of the Company) interested in, directly and indirectly through its subsidiary, a total of 520,380,000 shares, representing 24.54% of the issued share capital of the Company. Accordingly, Ever City is a connected person of the Company and the proposed acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The proposed acquisition is subject to announcement and reporting requirements but exempt from the circular and independent shareholders' approval requirements. The acquisition has completed on 14 June 2017.

Save as disclosed above, the Group did not have any other significant investments, acquisitions and disposals for the year ended 31 December 2017.

CHARGES ON GROUP'S ASSETS

The Group's bank loans at 31 December 2017 were secured by:

(i) charge over a time deposit amounting to RMB242,497,000 (equivalent to approximately HK$291,239,000);

(ii) charges over a land use right under service concession arrangement with a carrying amount of RMB4,133,000 (equivalent to approximately HK$4,963,000);

(iii) pledge of trade receivables with a carrying amount of RMB21,881,000 (equivalent to approximately HK$26,275,000);

CHARGES ON GROUP'S ASSETS *(continued)*

(iv) pledge of 100% equity interest in Qingyuan Water Supply Development Company Limited;

(v) pledge of 100% equity interest in Qingyuan Qingxin District Taihe Water Company Limited;

(vi) guarantee by Qinghui Properties Limited and Qingyuan Qingxin District Huike Properties Company Limited, both being the subsidiaries of the Group;

(vii) guarantee by Dongguan New Century Science and Education Development Limited, Ms. Zhu Fenglian and her spouse; and

(viii) guarantee by the non-controlling shareholders of subsidiaries.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no other future plan for material investments or capital assets for the year ended 31 December 2017.

CURRENCY RISK

The Group's core businesses are mainly transacted and settled in Renminbi and the majority of assets and liabilities are denominated in Renminbi ("**RMB**") and Hong Kong dollar ("**HK$**"). There are no significant assets and liabilities denominated in other currencies. During the year ended 31 December 2017, the Group did not enter into any arrangements to hedge its foreign currency exposure. Any material fluctuation in the exchange rates of HK$ or RMB may have an impact on the operating results of the Group.

The exchange rate of RMB to HK$ is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group manages foreign currency risk by closely monitoring the movement of the foreign currency rates.

CAPITAL COMMITMENT

As at 31 December 2017, the Group had contracted but not provided for of approximately HK$159,545,000 comprising (i) acquisition of property, plant and equipment of approximately HK$71,799,000 (2016: HK$85,854,000); and (ii) other intangible assets (as defined under the adopted accounting standards) of approximately HK$87,746,000 (2016: HK$79,840,000), both of which being in connection with for the expansion of water treatment capacity and pipeline network, as well as the maintenance capital expenditures in the normal course of business of Qingyuan Water Supply Development Company Limited and Qingyuan Qingxin District Taihe Water Company Limited.

CONTINGENT LIABILITIES

The Directors consider that the Group had no contingent liabilities as at 31 December 2017.

DIRECTORS

Executive Directors

Mr. Chen Jinyang

Mr. Chen, aged 47, was appointed as an Executive Director, the Chairman of the Board and an authorized representative of the Group on 18 December 2012, 16 September 2013 and 29 October 2015 respectively. He has substantial experience and knowledge of banking industry and investment business in the PRC.

Mr. Chau Cheuk Wah

Mr. Chau, aged 63, was appointed as the Chief Executive Officer and an Executive Director of the Group on 3 June 2013 and 16 September 2013 respectively. Mr. Chau has 38 years of experience in banking and finance in Hong Kong and China with various global financial institutes. Mr. Chau was graduated from The Chinese University of Hong Kong with a bachelor degree in Business Administration.

Mr. Zhou Jianhui

Mr. Zhou, aged 53, was appointed as an Executive Director of the Group on 18 December 2012. Mr. Zhou will retire as an Executive Director of the Group with effect from the conclusion of forthcoming annual general meeting. Mr. Zhou was previously a senior advisor of the Company and joined the Group as a Vice President. Mr. Zhou has substantial experience and knowledge of financial management and investment business in the PRC.

Directors and Senior Management

DIRECTORS *(continued)*

Executive Directors *(continued)*

Ms. Zhu Fenglian

Ms. Zhu, aged 54, was appointed as an Executive Director of the Group on 19 May 2016. She graduated from the Department of Chinese of Sun Yat-Sen University, China in 1985 with a Bachelor's degree. She has extensive experience in corporate management. She was formerly the chairperson of Guangdong Boxin Investment Holdings Limited ("Boxin", the shares of which are listed on the Shanghai Stock Exchange with stock code: 600083) from March 2010 to April 2016. She is currently (i) a director of Guangdong Golden Dragon Development Inc. ("GD", the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000712); (ii) the chairperson of Dongguan New Century School; (iii) a director of Ruijin Equity Investment Fund Management (Shenzhen) Company Limited, a wholly-owned subsidiary of the Company; (iv) a director and the general manager of Qinghui Properties Limited ("Qinghui") and Dongguan Xinhongcheng Enterprise Management Company Limited, 49% owned subsidiaries of the Company; (v) a director and general manager of Qingyuan Jinhong Industrial Company Limited, a wholly-owned subsidiary of Qinghui; (vi) a director of Qingyuan Water Supply Development Company Limited, a wholly-owned subsidiary of Qinghui; (vii) a director of Dongguan Hongshun Shiye Development Company Limited which is a shareholder with 2% interest in Qinghui; and (viii) a director of the following companies, namely, Dongguan Jinshun Real Estate Investment Limited, Dongguan Jincheng Real Estate Investment Limited, Dongguan Yuhe Shiye Limited, Dongguan Securities Limited, Zhongshan Securities Co., Ltd., Hooray Securities Limited, Hooray Capital Limited and Hooray Asset Management Limited.

Ms. Zhu is the substantial shareholder of the Company. Ms. Zhu, Affluent Vast Holdings Limited ("Affluent Vast") and Ever City Industrial Development Limited ("Ever City") are deemed to be interested in 520,380,000 shares of the Company, representing 24.54% of the total issued share capital of the Company, which comprises (a) 320,380,000 shares directly held by Ever City; and (b) 200,000,000 shares held by Eastcorp International Limited ("Eastcorp"). Ever City is wholly and beneficially owned by Affluent Vast. Affluent Vast is wholly and beneficially owned by Ms. Zhu. Therefore, Ever City is deemed to be a controlled corporation of Affluent Vast and Ms. Zhu. Eastcorp is wholly and beneficially owned by Ever City. Therefore, Eastcorp is deemed to be a controlled corporation of Ever City, Affluent Vast and Ms. Zhu.

DIRECTORS *(continued)*

Executive Directors *(continued)*

Ms. Zhang Haimei

Ms. Zhang, aged 50, was appointed as a Non-Executive Director of the Group on 23 December 2015 and re-designated as an Executive Director of the Group on 23 April 2018. Ms. Zhang is experienced in financial management. Ms. Zhang obtained a diploma in accounting and possesses the qualification of junior level accounting in the PRC.

Ms. Zhang is currently (i) a supervisor of Dongguan Xinhongcheng Enterprise Management Company Limited and Ruijin Equity Investment Fund Management (Shenzhen) Company Limited, both being subsidiaries of the Company; (ii) a director and the financial controller of Guangdong Golden Dragon Development Inc. (“GD”) whose shares are listed on the Shenzhen Stock Exchange (stock code: 000712); and (iii) a member of the supervision committee of Dongguan Securities Limited, a 40% owned associate of GD. Ms. Zhang joined GD in 2003 and has served in various positions in GD, of which Ms. Zhu Fenglian, a substantial shareholder and an executive director of the Company, and her family own shareholding interest through Dongguan New Century Science and Education Development Limited (“New Century”).

Non-Executive Director

Mr. Xuan Zhensheng

Mr. Xuan, aged 48, was appointed as Non-Executive Director of the Group on 23 April 2018. Mr. Xuan obtained a diploma in Economics Management in the PRC, and specialty in accountant qualifications issued by the Ministry of Personnel of PRC.

Mr. Xuan is currently a director and general manager of New Century (a company in which Ms. Zhu and her family own shareholding interest) and a supervisor of Dongguan Shi Yuhe Shiye Limited (a company in which Ms. Zhu and her family our shareholding interest). Mr. Xuan was previously (i) a director, the financial controller and the board secretary of Guangdong Boxin Investment Holdings Limited (“Boxin”), whose shares are listed on the Shanghai Stock Exchange (stock code: 600083); and (ii) the chairman of supervision committee of GD, whose shares are listed on the Shenzhen Stock Exchange (stock code: 000712). Ms. Zhu Fenglian, a substantial shareholder and an executive director of the Company, and her family own shareholding interest in GD through New Century.

Directors and Senior Management

DIRECTORS *(continued)*

Independent Non-Executive Directors

Dr. Cheung Wai Bun, Charles, *J.P.*

Dr. Cheung, aged 81, is an Independent Non-Executive Director, the Chairman of Remuneration Committee and a member of Audit Committee and Nomination Committee of the Group. He was awarded with Honorary Doctorate Degree in Business Administration by John Dewey University in the United States in 1984. He obtained a master degree in Business Administration and a Bachelor of Science degree in Accounts and Finance from New York University in the United States in 1962 and 1960, respectively. Dr. Cheung is a Director and Vice Chairman of Executive Committee of Metropolitan Bank (China) Ltd. He was formerly an Independent Non-Executive Director and the Chairman of Audit Committees of Shanghai Electric Group Company Limited (stock code: 2727) and was formerly an Independent Non-Executive Director; the Chairman and subsequently the Co-Chairman of the Board of Grand T G Gold Holdings Limited (stock code: 8299). He was formerly an Executive Director and the Chairman of the Board of Roma Group Limited (stock code: 8072). Dr. Cheung was also formerly Independent Non-Executive Director and the Director General of Audit Committee of China Resources Bank of Zhuhai Co. Ltd. Dr. Cheung is currently (i) an Independent Non-Executive Director and the member of Audit Committee, Remuneration Committee and Nomination Committee of Fullsun International Holdings Group Co., Limited (stock code: 627); (ii) an Independent Non-Executive Director of China Taifeng Beddings Holdings Limited (stock code: 873); (iii) an Independent Non-Executive Director and the Chairman of Audit Committee of Pioneer Global Group Limited (stock code: 224) and Modern Dental Group Limited (stock code: 3600); (iv) an Independent Non-Executive Director, and the Chairman of Nomination Committee and Audit Committee of China Financial International Investments Limited (stock code: 721); (vi) an Non-Executive Director of Galaxy Entertainment Group Limited (stock code: 027); and (vi) an independent Non-Executive Director and Chairman of Remuneration Committee of Jiayuan International Group Limited (stock code: 2768), all of which are companies listed on the Main Board of the Stock Exchange. Dr. Cheung is an Independent Non-Executive Director and the Chairman of Nomination Committee of Yin He Holdings Limited (formerly named "Zebra Strategic Holdings Limited") (stock code: 8260) listed on GEM board. He is also a Council Member of the Hong Kong Institute of Directors. He was a former visiting professor of School of Business of Nanjing University, China. He is a member of Hospital Governing Committee of both Kowloon Hospital and Hong Kong Eye Hospital and a member of Regional Advisory Committee of Hospital Authority. He was a former director and advisor of the Tung Wah Group of Hospitals. Dr. Cheung was formerly a Chief Executive & Executive Deputy Chairman of Mission Hills Group.

Dr. Cheung was awarded the Directors of the Year Awards 2002 of "Listed Company Non-Executive Director". He was elected Outstanding Director Award by the Chartered Association of Directors, Outstanding Management Award by Chartered Management Association, and Outstanding CEO Award by the Asia Pacific CEO Association in December 2010.

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. David Tsoi

Mr. Tsoi, aged 70, was appointed as an Independent Non-Executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Group on 3 June 2013. Mr. Tsoi is the managing director of Alliott, Tsoi CPA Limited. Mr. Tsoi obtained a master's degree in business administration from the University of East Asia, Macau (currently known as University of Macau) in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong, the Institute of Chartered Accountants of England and Wales, the Society of Chinese Accountants and Auditors and the CPA Australia, respectively, and a member of Chartered Professional Accountants of British Columbia, Canada. He was formerly (i) an Independent Non-Executive Director of CRRC Corporation Limited (formerly known as CSR Corporation Limited) (stock code: 1766); (ii) an Independent Non-Executive Director, Chairman of Audit Committee, Nomination Committee and Corporate Governance Committee of Anxin-China Holdings Limited (stock code: 1149); (iii) an Independent Non-Executive Director and Chairman of Audit Committee of Enviro Energy International Holdings Limited (stock code: 1102); and (iv) an Independent Non-Executive Director, Chairman of Audit Committee and Remuneration Committee of MelcoLot Limited (stock code: 8198). Mr. Tsoi is currently (i) an Independent Non-Executive Director, Chairman of Audit Committee and Remuneration Committee of Green International Holdings Limited (stock code: 2700); (ii) an Independent Non-Executive Director of Guru Online (Holdings) Limited (stock code: 8121) and Tianli Holdings Group Limited (stock code: 117); and (iii) an Independent Non-Executive Director and Chairman of Audit Committee of VPower Group International Holdings Limited (stock code: 1608) and Everbright Grand China Assets Limited (stock code: 3699), respectively, the shares of which are all listed on the Hong Kong Stock Exchange.

Directors and Senior Management

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. Chao Pao Shu George

Mr. Chao, aged 71, was appointed as an Independent Non-Executive Director, a member of Audit Committee, Nomination Committee and Remuneration Committee of the Group on 16 September 2013, and further appointed as Chairman of Nomination Committee of the Group on 13 January 2016.

Mr. Chao was formerly an Independent Non-Executive Director, Chairman of Remuneration Committee and member of Audit Committee, Nomination Committee and Corporate Governance Committee of AnxinChina Holdings Limited (stock code: 1149).

Mr. Chao graduated from the College of Air Traffic Control in the United Kingdom. Mr. Chao was a pilot and had many years of experience in aviation industry in the United Kingdom, Hong Kong and China. Prior to his retirement, Mr. Chao had served Hong Kong Government Flying Services (formerly known as Royal Hong Kong Auxiliary Air Force before 1997) and Civil Aviation Administration of China (CAAC). Mr. Chao is currently a consultant and air traffic control specialist of CAAC.

SENIOR MANAGEMENT

Mr. Chen Shaofei

Mr. Chen, aged 43, is the legal representative, chairman and general manager of Qingyuan Water Supply Development Company Limited, a subsidiary of the Group. Mr. Chen graduated from HeFei University of Technology in 1997 majoring in water projects. He is also a senior drainage engineer. Mr. Chen has over 20 years of experience in the water supply industry.

Mr. Zou Xiaowei

Mr. Zou, aged 59, is the legal representative and chairman of Qingxin District Taihe Water Company Limited, a subsidiary of the Group. Mr. Zou had served as a director and assistant of general manager of Guangdong Golden Dragon Development Inc. ("GD", the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000712).

Mr. Li Xiaorun

Mr. Li, aged 38, is the director and general manager of Qingxin District Taihe Water Company Limited, a subsidiary of the Group. Mr. Li graduated from Nanchang University in 2001 majoring in hydraulic and electric engineering. He is also a senior engineer. Mr. Li has more than 17 years of experience in the water supply industry.

Corporate Governance Report

The Company and the Board are devoted to achieve and maintain the highest standards of corporate governance and have adopted the principles of the corporate governance practices of the Rules Governing the listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the construction of our corporate governance practices. The Board believes that effective corporate governance practices are fundamental to enhancing shareholder value and safeguarding interests of our shareholders and other stakeholders. Accordingly, the Company has adopted sound corporate governance principles that emphasize a quality Board, effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Main Board CG Code"). The Company has complied with all the applicable Code Provisions of the Main Board CG Code except that one Non-Executive Director was not present at the annual general meeting of the Company which was held on 23 June 2017. This constitutes a deviation from the code provision of A.6.7 which requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

The Board periodically reviews the corporate governance practices of the Company to ensure that they meet the requirements of the Main Board CG Code.

BOARD OF DIRECTORS

Board Composition

The Board comprises nine Directors, including five Executive Directors, namely, Mr. Chen Jinyang (Chairman), Mr. Chau Cheuk Wah (Chief Executive Officer), Mr. Zhou Jianhui, Ms. Zhu Fenglian and Ms. Zhang Haimei; one Non-Executive Director, namely Mr. Xuan Zhensheng; and three Independent Non-Executive Directors, namely Dr. Cheung Wai Bun, Charles, *J.P.*, Mr. David Tsoi and Mr. Chao Pao Shu George. Throughout the year and up to the date of this report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with at least one Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. To comply with Rule 3.10A of the Listing Rules, Independent Non-Executive Directors represented at least one-third of the Board throughout the year ended 31 December 2017.

The Company has received annual confirmation of independence from each of the Independent Non-Executive Directors pursuant to Rule 3.13 of the Listing Rules and all Independent Non-Executive Directors are considered to be independent. Brief biographical particulars of the Directors are set out on pages 15 to 20.

Board's Responsibilities and Delegation

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies, approval of business plans, evaluating the performance of the Group and oversight of management. It is also responsible for promoting the success of the Group and its businesses by directing and supervising the Group's affairs. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The participation of Non-Executive Directors in the Board brings independent judgement on issues relating to the Company's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The Board delegates day-to-day operations of the Company to Executive Directors and senior management, while reserving certain key matters for Board's approval. Decisions of the Board are communicated to the management through Executive Directors who have attended at Board meetings.

Liability insurance for Directors and senior management officers of the Company was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

BOARD OF DIRECTORS *(continued)*

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the required standard of dealings as set out in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, the Directors have complied with the above-mentioned required standards of dealings regarding Directors' securities transactions throughout year ended 31 December 2017.

Meetings

Board members attended the Company's Board meetings either in person or through telephone conferencing means in accordance with the provisions of the Company's articles of association. The attendance record of each director at the Board meetings and annual general meeting held during the year is set out below:

	Number of meeting attended/held	
Directors	**Board meetings**	**AGM**
Mr. Chen Jinyang	4/4	1/1
Mr. Chau Cheuk Wah	4/4	1/1
Mr. Zhou Jianhui	4/4	1/1
Ms. Zhu Fenglian	4/4	0/1
Ms. Zhang Haimei	4/4	0/1
Mr. Xuan Zhensheng (appointed on 23 April 2018)	n/a	n/a
Dr. Cheung Wai Bun, Charles, *J.P.*	4/4	1/1
Mr. David Tsoi	4/4	1/1
Mr. Chao Pao Shu George	4/4	1/1

Corporate governance functions

The Board is responsible for performing the corporate governance duties as set out below:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of Directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

BOARD OF DIRECTORS *(continued)*

Corporate governance functions *(continued)*

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

Directors' Continuing Professional Development Programme

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and Directors have provided the Company with their respective training records pursuant to the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A.2.1 of the Code, the roles of the Chairman and the Chief Executive Officer should be separated and should not be performed by the same individual. The Chairman of the Company is Mr. Chen Jinyang, while the Chief Executive Officer is Mr. Chau Cheuk Wah.

The Chairman plays a leadership role and is responsible for the effective functioning of the Board in accordance with the good corporate governance practice adopted by the Company. He is also responsible for instilling corporate culture and developing strategic plans for the Company. Under provisions A.2.1 and A.2.2 of the Code, the Chairman would ensure that all Directors are properly briefed on issues arising at Board meetings and would be responsible for ensuring that Directors receive adequate information, which must be complete and reliable, in a timely manner. On the other hand, the Chief Executive Officer primarily focuses on developing and implementing objectives and policies approved and delegated by the Board. The Chief Executive Officer is also responsible for the Company's day-to-day management and operations and the formulation of the organisation structure, control systems and internal procedures and processes of the Company for the Board's approval.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the Directors was appointed for a specific initial term which shall continue thereafter subject to retirement by rotation in accordance with the articles of association of the Company and re-election by shareholders and termination in accordance with the terms of the respective service agreements.

The Articles of Association of the Company provides that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of the Company and shall be subject to re-election at such meeting and (ii) as an addition to the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election.

The Articles of Association of the Company also provides that the Company may remove a Director by way of an ordinary resolution at general meeting.

COMPANY SECRETARY

Mr. Tang Chi Wai is the company secretary, the financial controller and an authorised representative of the Company. Mr. Tang is responsible for the overall financial and accounting affairs, treasury management and company secretarial matters of the Group.

Mr. Tang supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. He has attained not less than 15 hours of relevant professional training during the year 2017.

REMUNERATION COMMITTEE

The Board established the remuneration committee in July 2006. The major responsibilities of the remuneration committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior management of the Company. The remuneration committee shall determine, with delegated responsibility, the individual remuneration package of each Executive Director and senior management including benefits in kind and pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment). When determining remuneration packages of the Executive Directors and senior management of the Company, the remuneration committee takes into consideration factors such as time commitment, responsibilities, employment condition and remuneration packages of executive directors of comparable companies.

The remuneration committee currently comprises three Independent Non-Executive Directors, namely, Dr. Cheung Wai Bun, Charles, *J.P.*, Mr. David Tsoi and Mr. Chao Pao Shu George, and is chaired by Dr. Cheung Wai Bun, Charles, *J.P.*.

The terms of reference of the remuneration committee have been uploaded to the Company's website and the Stock Exchange's website.

The remuneration committee held two meetings for the year ended 31 December 2017. The composition of the remuneration committee during the year as well as the meeting attendance of the committee members are as follows:–

Remuneration Committee	Attendance
Dr. Cheung Wai Bun, Charles, *J.P. (Chairman)*	2/2
Mr. David Tsoi	2/2
Mr. Chao Pao Shu George	2/2

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 7(b) to the consolidated financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 December 2017 is set out below:

Remuneration bands	Number of individuals
Nil to HK$1,000,000	3

NOMINATION COMMITTEE

The Board established the nomination committee on 29 March 2012. The nomination committee is authorised by the Board to determine the policy for the nomination of Directors, to set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. The nomination committee is also responsible for reviewing the structure, size and composition of the board.

The Board has adopted its board diversity policy (the "Board Diversity Policy"). All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee currently comprises three Independent Non-Executive Directors, namely, Dr. Cheung Wai Bun, Charles, *J.P.*, Mr. David Tsoi and Mr. Chao Pao Shu George, and is chaired by Mr. Chao Pao Shu George.

The terms of reference (including the nomination procedures and criteria for selection and recommendation of candidates for directorship) of the nomination committee have been uploaded to the Company's website and the Stock Exchange's website.

The nomination committee held one meeting for the year ended 31 December 2017. The composition of the nomination committee during the year as well as the meeting attendance of the committee members are as follows:–

Nomination Committee	Attendance
Mr. Chao Pao Shu George *(Chairman)*	1/1
Dr. Cheung Wai Bun, Charles, *J.P.*	1/1
Mr. David Tsoi	1/1

RISKS MANAGEMENT AND INTERNAL CONTROLS

The Board has the responsibility to maintain an effective risk management and internal control system in order to safeguard the Group's assets and investments and the shareholders' interest and conducts a review on an annual basis. During the year, the Board had conducted review of the effectiveness of the risk management and internal control system of the Company in aspects of the Group's financial, operational, compliance controls and risk management functions before the date of this report through effort of the Audit Committee.

During the year, the Company engaged an external independent consultant to conduct a review on the internal control system and risk management of the Group. The Board has the overall responsibility to maintain the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function and the Board had reached the conclusion that the Group's risk management and internal control system was in place and effective.

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company. The financial statements set out on pages 69 to 151. Financial results of the Company are announced in a timely manner in accordance with statutory and/or regulatory requirements.

The Board of Directors recognises the importance of integrity of financial information and acknowledges its responsibility for preparing interim and annual financial statements that give a true and fair view of the Company's affairs and its results and cash flows in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance. In presenting the financial information, as well as price-sensitive announcements and other financial disclosures as required by regulations, the board endeavours to present in a timely manner to shareholders and other stakeholders a balanced and understandable assessment of the Company's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purpose are prudent and reasonable. Prior to the adoption of the financial statements and the related accounting policies, the relevant financial information is discussed between the external auditor and the management, and then submitted to the audit committee for review.

The Board considers that the adoption of new or amended financial reporting standards that became effective during the year has not had a significant impact on the Company's financial statements, details of which are disclosed in Note 2(b) on pages 76 and 77.

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2017 are set out in the Independent Auditor's Report on pages 64 to 68.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the remuneration paid and payable to the external auditor of the Group for services provided are set out as follows:

SERVICES RENDERED	Fee Paid/Payable 2017 HK$'000
Statutory audit services	1,052
Other audit services	103
Review of interim results	508
NON-AUDIT SERVICES:–	
Taxation services	120
	1,783

AUDIT COMMITTEE

The Board established the audit committee in October 2001. The audit committee is authorised by the Board to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) the Company's financial control, internal control and risk management systems.

The audit committee monitors the integrity of the Company's financial statements, annual report and accounts and half-year report and reviews significant financial report judgments contained therein. It reviews, makes recommendations and reports to the Board on findings relating to the financial statements, reports and accounts, systems of internal controls and risk management and compliance issues.

The audit committee currently comprises three Independent Non-Executive Directors, namely, Mr. David Tsoi, Dr. Cheung Wai Bun, Charles, *J.P.* and Mr. Chao Pao Shu George, and is chaired by Mr. David Tsoi.

The terms of reference of the audit committee have been uploaded to the Company's website and the Stock Exchange's website.

AUDIT COMMITTEE *(continued)*

The audit committee held three meetings for the year ended 31 December 2017. The composition of the audit committee during the year as well as the meeting attendance of the committee members are as follows:-

Audit Committee	Attendance
Mr. David Tsoi *(Chairman)*	3/3
Dr. Cheung Wai Bun, Charles, *J.P.*	3/3
Mr. Chao Pao Shu George	3/3

SHAREHOLDERS' RIGHTS

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

A shareholders' communication policy (the "Policy") was adopted by the Company in March 2012 to maintain an on-going dialogue with Shareholders and encourage them to communicate actively with the Company and also establishing the Policy and reviewing the Policy on a regular basis to ensure its effectiveness.

INVESTOR RELATIONS

There was no amendment made to the constitutional documents of the Company during the year.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public.

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar: Hong Kong Registrars Limited, Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Other enquiries or comments raised by any shareholder can be mailed to the Board at the Company's head office in Hong Kong at Room A & B2, 11th Floor, Guangdong Investment Tower, No. 148 Connaught Road Central, Sheung Wan, Hong Kong or sent through email to info@uth.com.hk.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

This is the second Environmental, Social and Governance ("ESG") report by the Group, highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 of the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited.

The Group mainly provides water treatment services in Qingyuan city and Taihezhen, Guangdong Province, China. The two water plants source water from local rivers. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the water treatment operations of Qingyuan Water Supply Development Company Limited ("Water Supply Development Company"), Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Company"), and business operation in the headquarters office in Sheung Wan, Hong Kong (the "Headquarters", hereafter referred as "the Water Plants and Headquarters"), from 1 January 2017 to 31 December 2017, unless otherwise stated.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values input from its stakeholders. Apart from engaging internal stakeholders, the Group participated in industry associations such as the Guangdong Cities and Towns Water Supply Association to share and exchange industrial news and ideas. The Group communicated with its internal and external stakeholders through meetings, face-to-face discussions, questionnaires and networking events. In particular, shareholders, employees, regulatory institutions, suppliers and customers (including business and household customers) were involved in determining and providing insights on material ESG aspects through surveys in the reporting period. Below are the top five material aspects and the respective management on the aspects:

Material Aspects	Management on the Aspects
Water (at source)	Ensure stability and quality of water source through frequent laboratory tests, examining biological test results, contingency plan and drills regarding contaminated or polluted water source.
Occupational health and safety	Provide medical insurance, annual body checks, annual women health checks, proper Personal Protective Equipment ("PPE") and health and safety trainings to employees.
Customer data protection	Protect confidential and consumer data information through employees' undertaking and information access restriction by designated information security team.
Customer service	Communicate and address enquiries, complaints and recommendations from customers through various channels including email, hotline, text messages, WeChat public accounts, suggestions collection boxes and receptions at their operation centers.
Water supply quality and safety	Ensure quality and safety of water (including surface water, raw water, supply water and pipe network water) through frequent laboratory tests and control chemical use, hygiene and safety throughout the treatment process.

STAKEHOLDER ENGAGEMENT AND MATERIALITY *(continued)*

Details on managing the identified aspects are also described in separate sections below. Opinions and recommendations collected from stakeholders will be considered as important factors in future decision making processes.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our environmental, social and governance approach and performance. Please give your suggestions or share your views with us via email at info@uth.com.hk.

UNIVERSAL TECHNOLOGIES'S SUSTAINABILITY MISSION AND VISION

Mission

The Group strives to provide safe and high quality water for various applications. We focus on continuously improving our water supply, maintaining stringent industrial standards and securing end users' access to reliable and quality freshwater. The Group is also committed to the core mission of exercising water stewardship and encouraging sustainable use of water resources.

Vision on Environment, Social, and Governance

The Group acknowledges that being a responsible enterprise, it must take into account the impact of its business operation on the environment while enjoying financial stableness. The Group committed to enhancing governance, promoting employee benefits and development, protecting the environment and giving back to society in order to fulfill social responsibility and achieve sustainable growth.

MAJOR CHALLENGES AND FUTURE DIRECTIONS

The escalating freshwater demand increased pressure on the water treatment operations. In the reporting year the water treatment operations expanded their water supply area and supplied more than 139 million m^3 (last reporting year: 111 million m^3) of water to the local and adjacent community. To tackle the increased demand, the Group continuously explores opportunities to enhance raw water pipe network in order to expand its supply area. An analysis report regarding freshwater shortage in Qingxin District was also drafted in the reporting period, for submission to the council, the government and the municipal water authority of the district.

Other challenges the Group encountered include overcoming pressure imbalance in water distribution process and standardizing service quality across different locations. The Group will constantly endeavour to improve existing pipe network and improve customer services.

A. ENVIRONMENTAL

Types of emission sources of the Water Plants and Headquarters involved in the reporting period were mainly liquefied petroleum gas ("LPG"), petrol, diesel, electricity, water, non-hazardous waste (paper and sludge) and mud water. The business does not involve production-related air pollutions and complies with all water-related national laws and regulations. All water standards conform with the Standards for Drinking Water Quality (GB5749-2006) and Water Quality Standards for Urban Water Supply (CJ/T206-2005).

The water treatment operations of the Group supplied more than 139 million m^3 of water to the local and adjacent community. The intensities below are calculated in terms of emission or resources consumption per million m^3 of supplied water.

1. Greenhouse Gas Emission

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tonnes of CO_2e)	Total Emission (in percentage)
Scope 1			
Direct Emission	Diesel consumed by generator	1.89	0.49%
	LPG consumed by the canteen operation	0.88	
	Petrol consumed by Group-owned vehicles	72.68	
	Diesel consumed by Group-owned vehicles	28.41	
Scope 2			
Indirect Emission	Purchased Electricity	21,142.38	99.44%
Scope 3			
Other Indirect Emission	Paper Consumption	14.12	0.07%
Total		21,260.36	

Notes:

- Group-owned vehicles include only Group-owned vehicles in the Water Plants and Headquarters.
- Emission factors were made with reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.
- Combined margin emission factor of 0.63 tCO_2/MWh was used for purchased electricity in Guangdong Province of the PRC.
- Emission factors for combustion of LPG and diesel for stationary source were calculated with reference made to GHG Emissions from Stationary Combustion (Chinese), provided by the Greenhouse Gas Protocol.
- The above emission data does not include the removal of CO_2 contributed by recycling of paper.

A. ENVIRONMENTAL *(continued)*

1. Greenhouse Gas Emission *(continued)*

There were 21,260.36 tonnes of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, nitrous oxides and methane) emitted from operation of the Water Plants and Headquarters in the reporting period. The annual emission intensity was 152.95 tCO_2e/million m^3.

2. Emission Sources and Saving Initiatives

(i) Direct Emission

Employees mainly travel by vehicles. A total of 26,839.02 litres of petrol and 10,673.41 litres of diesel were used for the Group-owned vehicles in the reporting period. In addition, 277.50 kg of LPG was used for the canteen operation in Taihe Company and 707.43 litres of diesel was used in the generator in Water Supply Development Company. They together contributed to the emission of 247.43 kg of nitrogen oxides, 0.22 kg of sulphur oxides, 22.55 kg of particulate matter.

The Water Plants and Headquarters strictly manage fuel usage and distance travelled by their vehicles. Fuel consumption is estimated, verified and announced monthly. Preference is given to fuel efficient vehicles when purchasing new vehicles.

During the reporting period, Taihe Company's greening work has been completed which created an aesthetic environment and improved the air quality.

(ii) Electricity

The electricity consumption by the Water Plants and Headquarters was 33,552 MWh, which included electricity for daily operations and water treatment. The Water Plants and Headquarters proactively explore opportunities to electricity consumption reduction and equipment optimization. The water plants implemented the following measures in the reporting period:

- Enhancing efficiency of their water pumps and equipment; and
- Bringing in frequency inverters which adjust power supply according to different pressure level automatically.

In office area, lights are turned off during lunch time and before leaving work to reduce unnecessary electricity consumption. Air conditioning is maintained at 26°C or higher in summer and heaters are not turned on in winter.

A. ENVIRONMENTAL *(continued)*

2. Emission Sources and Saving Initiatives *(continued)*

(iii) Water

The water treatment operations source raw water directly from the local Beijiang River and its tributary with licences and approvals from the local government. During the reporting period, they sourced a total of 127 million m^3 of water from the river and supplied more than 139 million m^3 of water to the local and adjacent community.

The water treatment operations continuously put efforts in reducing water loss due to backwashing, mud water discharge and tank washing. In the reporting period, several initiatives were implemented to conserve water resources:

- Adopting a more efficient and water-saving siphoning method for sludge discharge;
- Reusing treated backwash water for water supply (with supply water standard met);
- Controlling backwash water consumption; and
- Planning to construct a recycling pool for collecting water for recycling.

(iv) Waste

Hazardous Waste

The water treatment operations consume chemicals including polyaluminium chloride ("PAC"), hydrochloric acid, sodium chlorate and sodium hypochlorite. When disposed improperly, hazardous waste poses potential hazard to human health and the environment. Therefore, hazardous materials used by the water treatment operations are handled carefully and collected by licensed collectors. No hazardous waste was generated during the reporting period.

A. ENVIRONMENTAL *(continued)*

2. Emission Sources and Saving Initiatives *(continued)*

(iv) Waste *(continued)*

Non-hazardous Waste

There were no packaging materials used for the Group's business operation. A total of 2.94 tonnes of paper has been used for daily office operations such as documents printing and deliverables packaging. The Group understands that high paper consumption piles pressures on the Earth's natural forests and endangered wildlife. Therefore, it practices paper saving initiatives, such as encouraging employees to use duplex printing for internal documents and adopt environmentally friendly photocopy habit. Wastepaper collection containers are provided in prominent area for paper reuse. During the reporting period, 41.62 kg of paper had been recycled, contributing to a reduction of 0.20 tonnes of equivalent carbon dioxide emission.

Small amount of sludge was generated from filtration of mud water, which was then collected by licensed collectors.

(v) Mud Water

The water treatment operations generated 1,666.91 tonnes of tank-washing mud water during the reporting period. Mud water is filtered before discharging to nearby waterbodies. Measures have been implemented to reduce mud water generation.

3. Direct and Indirect Energy Consumption

The energy use involved in the Water Plants and Headquarters included the consumption of electricity, petrol, diesel and LPG. The Water Plants and Headquarters consumed a total of 33,907 MWh (energy intensity of 244 MWh/million m^3) of energy during the reporting period.

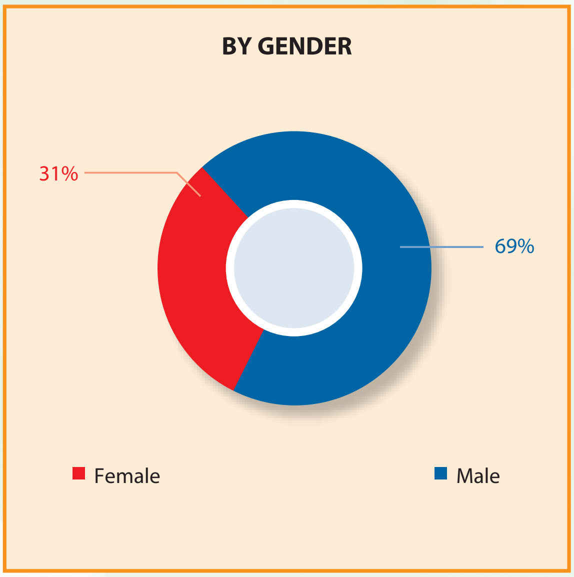
Energy Consumption Sources	Consumption Distribution (in %)	Consumption Intensity (MWh/million m^3)
Electricity	98.95%	241
Petrol	0.70%	1.71
Diesel	0.34%	0.82
LPG	0.01%	0.03

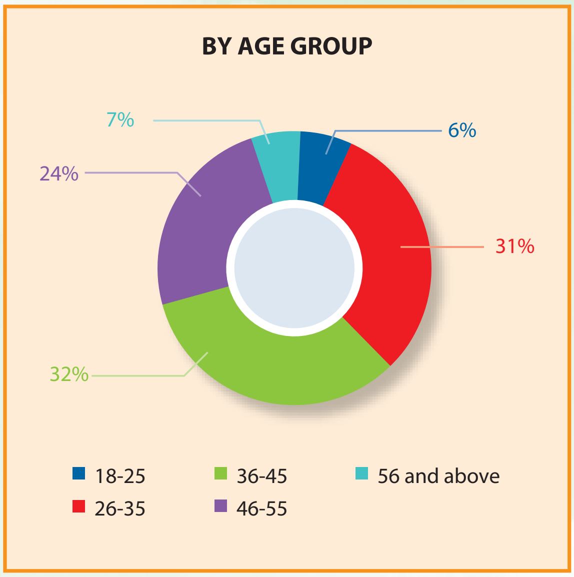
B. SOCIAL

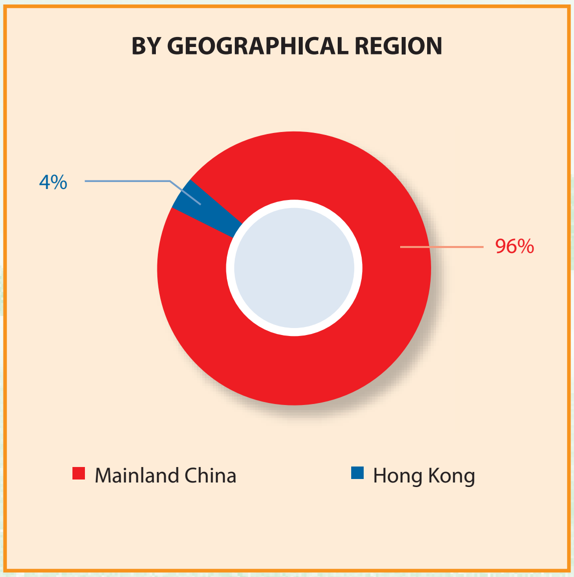
1. Employment and Labour Practices

(i) Employment

The Water Plants and Headquarters had a total number of 352 employees as at 31 December 2017, in which all of them was working as full-time staff. The following graphs show the total workforce by gender, age group and geographical region.







B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

(i) Employment *(continued)*

Remuneration and Benefits

The Group complies with all applicable employment and labour laws of the People's Republic of China ("PRC") and Hong Kong. It offers competitive remuneration, promotion opportunity, compensation and benefit packages to attract and retain talents. The policies of remuneration and welfare of employees are reviewed, approved, implemented and executed by various departments. The Group ensures that remuneration packages are appealing to employees with reasonable returns provided, based on their performances, duties and market values. Appropriate procedures have been established in the employment contract to settle any dispute.

Employees are entitled to discretionary bonus, mandatory provident fund, compensation salary, medical insurance (with provision of free annual body check and women health check), short term health insurance, accident insurance, directors and officers liability insurance and the basic social insurance in Mainland China (including pension, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance). The Group also joined the workers' inpatient and medical assistance program offered by the Guangdong Workers Security Benefit Association. Additional subsidies are provided to specialised workers (such as electricians, welders, fitters and laboratory technicians), night-time workers, and workers who have their regular meals delayed due to shift work. Various types of paid leave are provided including annual leave, sick leave, maternity leave, paternity leave and compassionate leave.

Awards and Disciplinary System

The Group believes that awards presentation is a means to show recognition and appreciation to employees. One-off awards are presented to employees with positive attitude to work, while outstanding awards are presented quarterly and annually to high-performing employees. These provide employees with a sense of accomplishment and satisfaction at work. On the other hand, disciplinary action would be taken if an employee has committed an act of serious misconduct or deceitful behaviour.

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

(i) Employment *(continued)*

Equal Opportunity

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws in the PRC and Hong Kong. Accessible roads and pathways were built for the Group's employees with disabilities.

Communication with Employees

The Group encourages equal communication between frontline workers and the management, and promotes harmonious relationships in the workplace. The Human Resources Department is responsible for enhancing communication among employees, protecting labour's welfare and dealing with complaints. The Group's policies and important announcement are circulated among employees through intranet, notice boards and meetings.

In the reporting period, a basketball court was built near the water plant of Taihe Company which enables employees to relax themselves during leisure time and promote camaraderie among employees. Employees also participated in the various sports activities organized by the Qingxin District of Qingyuan City. Other activities held by the Group include annual gatherings, festive celebrations, quizzes and competitions, and outward bound activities.

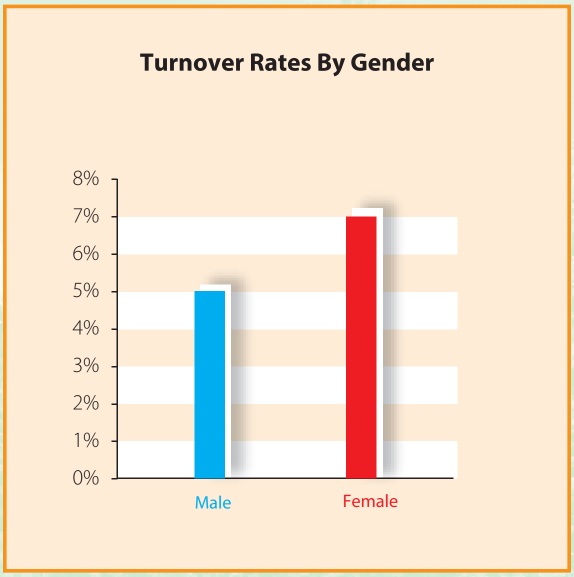
B. SOCIAL *(continued)*

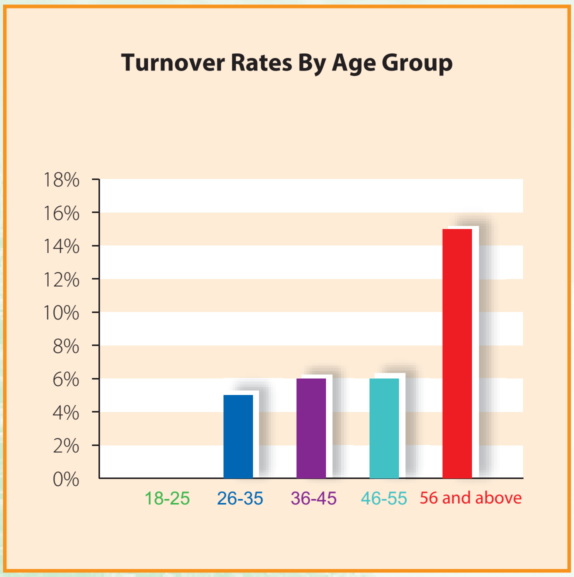
1. Employment and Labour Practices *(continued)*

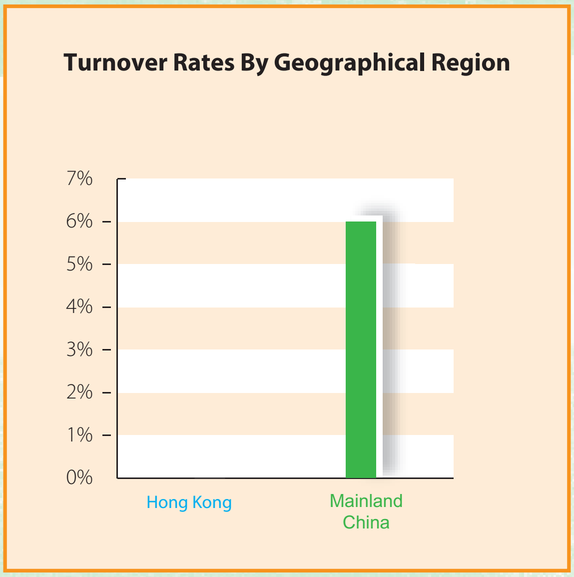
(i) Employment (continued)

Turnover

The annual turnover rates (categorized by different gender, age group and geographical region) in the reporting period are as follows.







B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

(ii) Labour Standard

In pursuance of the Labour Law of the PRC and the Employment Ordinance of the Laws of Hong Kong, there were no child nor forced labour in the Group's operation. The Group strictly abided by the guidelines of recruitment procedures in the employees' handbook. The Human Resources Department authenticates employee candidates' identity cards, educational certificates, employee registration forms and photos. Candidates or employees providing false certificates is in breach of the Group's policies and can be dismissed without any compensation.

(iii) Employee Health and Safety

The Group complies with all applicable health and safety laws of the PRC and Hong Kong and is committed to equipping employees with proper PPE, delivering health and safety knowledge, and providing trainings to employees in accordance with national standards. The water treatment operations allocated responsible person for safety management, established a safety management system and targeted at zero occupational disease incidents. Employees who deal with hazardous materials should carry out body check before start of work and regularly throughout their work period. Employees diagnosed with occupational diseases will immediately be transferred to other posts which are not exposed to relevant risks of occupational disease. Annual body check is also provided to frontline workers who handle chemicals, toxic substances, radioactive sources, and drinking water.

In the reporting period, the Water Supply Development Company revised the Production Safety and Accidents Emergency Plan, in which comprehensive contingency plan was developed for production accidents (such as natural disasters, water pollution and contamination, pipe network destruction, war and terrorist activities). Potential risks and hazards were also identified and analysed. In tandem with the drills, employees are aware of the potential risks, hazards and the actions to be taken when accidents occurred.

Occupational Health and Safety Data in 2017	
Work related fatality	0
Work injury cases >3 days	0
Work injury cases ≤3 days	0
Lost days due to work injury	0

Apart from maintaining a safe and healthy working environment, the Group also ensures workload of employees is manageable and two-way communication is established through open office spaces and regular team meetings. Some offices are also decorated with plants to improves indoor air quality.

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

(iv) Development and Training

Employees are valuable assets of the Group. The Group believes that trainings are precious opportunities for employees' continuous development and work efficiency enhancement. Hence, the Group provides comprehensive trainings to its employees. To ensure every employee meets standards of safe and quality production, employees are only qualified to work after passing the examinations in trainings (such as induction, specialised and new technologies training). The Group also conducts annual safety examination to ensure that employees meet the required safety standards.

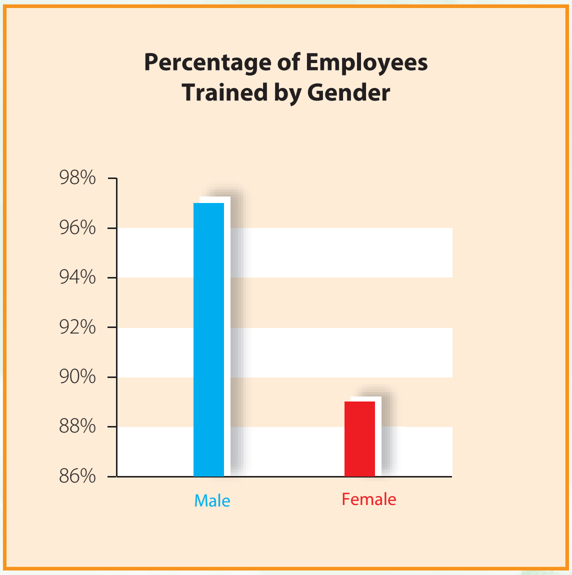
Types of training	Description
Induction Trainings	• Familiarize newly recruited employees with the Group's work environment • Introduce background information, culture, regulations, and code of the Group • Include topics on basic safety knowledge, operation procedures and protective equipment
Internal Trainings	• Provide employees with duty-related trainings • Include topics on management, general operation, plant management and customer services
External Trainings	• Strengthen employees' skills by external organizations • Include topics on office management, office secretary, human resources management and financial management
Transferal Trainings	• Assist employees to transfer from one position to the other with relevant skills
Specialised Training	• Provide laboratory technicians, electricians, welders, lifting machines operators and mobile machinery operators with professional safety skills and knowledge
Trainings for New Technologies	• Train employees on operation procedures of the newly introduced technologies, processes, products and equipment
Personal Development Trainings	• Encourage employees to participate external trainings for self development

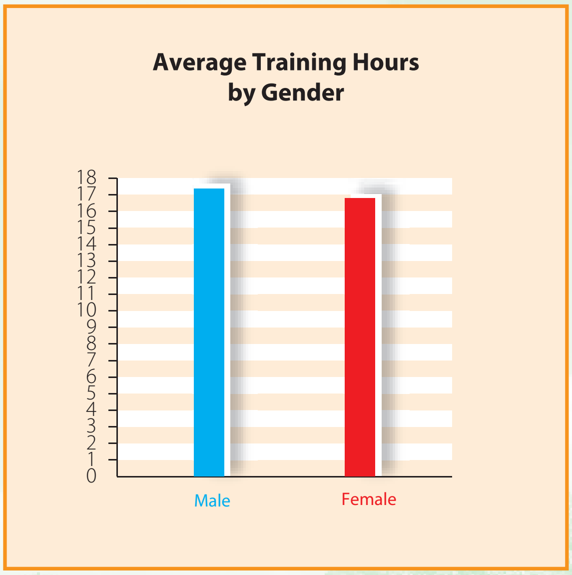
B. SOCIAL *(continued)*

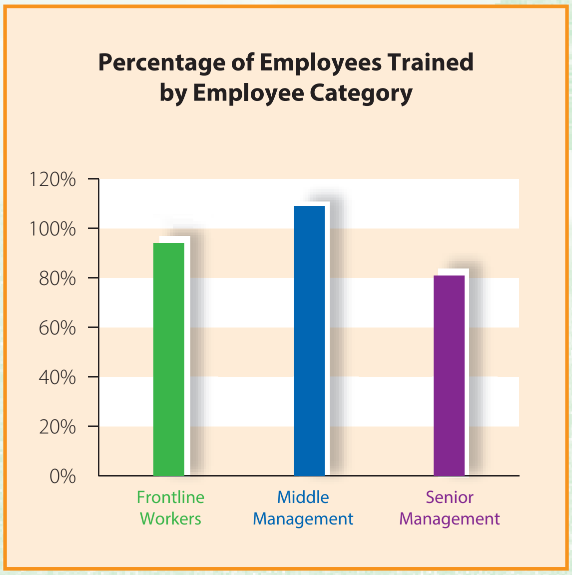
1. Employment and Labour Practices *(continued)*

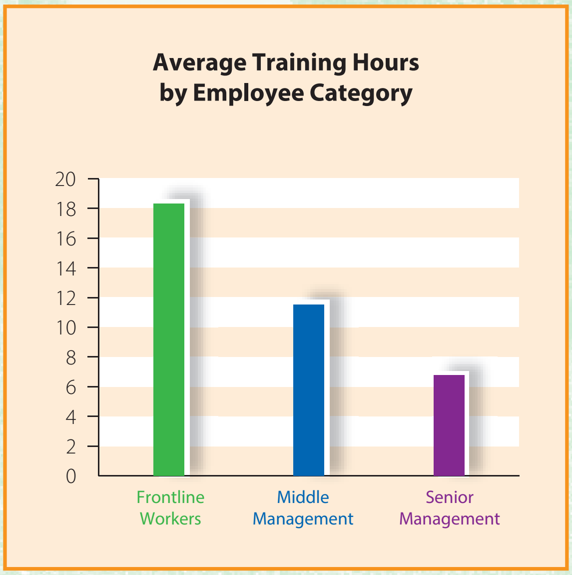
(iv) Development and Training (continued)

In the reporting period, employees in the water treatment operations participated in trainings including a drill regarding ammonia nitrogen exceedance in raw water, evaluation of leakage from high-risk pipe network and safety of confined space work; Employees in the Headquarters participated in business-related courses such as business valuation courses. The total training hours conducted by the Water Plants and Headquarters in 2017 was 6,053 hours. The graphs below show the percentage of employees trained and average training hours by gender and by employee category.









B. SOCIAL *(continued)*

2. Operating Practices

(i) Supply Chain Management

The Group has an organized procurement system to ensure smooth production and operation, optimize allocation of resources and continuous improvement of the system. There were more than 90 major suppliers mainly from different provinces of Mainland China in the reporting period.

Procurement is carried out by tendering. Procurement items are first reviewed and approved by the Management Committee before tendering. Tender documents are then prepared by the Procurement Department, audited by the Management Committee and reviewed by the Legal Department. At least three written quotations are obtained to support procurement decisions. Quotations are kept in record. Procurement contract will be established with successful tenders and signed by the legal representative from the operation. Successful tenders are required to provide a third-party testing report or a sample report of the purchased item.

The Management Committee reviews and evaluates suppliers annually to produce a list of qualified suppliers and a list of substandard suppliers. Inspections are conducted to assess suppliers' licenses, storage environment, equipment, and health conditions.

(ii) Product Responsibility

Supply Water Quality and Chemical Use

Apart from conforming with the Standards for Drinking Water Quality (GB5749-2006) and the Water Quality Standards for Urban Water Supply (CJ/T206-2005), the water plants carry out laboratory tests for raw water (12 parameters), supply water (13 parameters) and pipe network water (13 parameters) each day. While there are weekly/biweekly laboratory tests conducted for raw water (18 parameters), supply water (20 parameters) and pipe network water (20 parameters); monthly laboratory tests conducted for surface water (41 parameters), raw water (74 parameters), supply water (78 parameters) and pipe network water (78 parameters). Supply water also passed the half-yearly laboratory tests (106 parameters) carried out by qualified water quality testing laboratories.

Chemicals including PAC, hydrochloric acid, sodium chlorate and sodium hypochlorite were used in the water treatment for flocculation, pH adjustment, disinfection and purification. All chemicals were carefully handled according to relevant specifications and guidelines, properly stored and bunded if necessary. Input of chemicals during the treatment process is conscientiously controlled and monitored through obtaining real-time data of chemical input in different treatment processes. Chemical spillage contingency plan is in place and emergency drills for chemical spillage are organized regularly.

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

(ii) Product Responsibility *(continued)*

Customer Service

To maintain quality of service, the Group attaches high importance to communication with end-users. Apart from keeping the public informed of the Group's latest development through its official website, during incidents of emergency (such as sudden cut-off of water supply), the public is informed of the updates through text messages and social network platforms.

It is also essential to provide channels for customers to voice opinion and raise complaints. End-users can raise enquiries and complaints through the government hotline, the water plants' direct line, WeChat public accounts, suggestions collection boxes or receptions at their operation centers. The Group's business operation does not involve in sales, shipping and recalling of products. The water plants had recorded 400 complaints on water supply services in the reporting period. All complaints have been followed up and resolved.

Intellectual Property ("IP")

Employees acknowledged and agreed in the employment contract that any IP rights including without limitation any patent, trade mark, service mark, design right, domain name, trade or business name, copyright and/or all other right or form of protection of a similar nature or having equivalent or similar effect to any of these subsisting anywhere in the world created, developed or otherwise arising or existing as a result of, or during the course of, the performance by employees of their duties hereunder, shall belong solely to the Group and to the extent that any such IP rights shall have vested or accrued or be deemed to have vested or accrued in or to employees, such IP rights shall be immediately transferred from employees to the Group, appointing the Group as their attorney to take any action, including without limitation executing and/or delivering any documents (whether under hand or under seal) necessary or desirable in the view of the Group to give effect to the above. There was no material non-compliance with laws and regulations relating to IP during the reporting period.

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

(ii) Product Responsibility *(continued)*

Information Security

Employees dealing with trade secrets warrant not to disclose the above information by signing the confidentiality contract. They shall use their best endeavours to prevent any unauthorised access, use, publication or disclosure of trade secret or confidential information related to the business and finance of the Group. All documents (including correspondence, lists of customers, notes, memoranda, plans, drawings and other documents of whatsoever nature), computer software, computer hardware, computer files, hard copy files, models or samples made or compiled by or delivered to employees during their employment and concerning the business, finance or affairs of any subsidiary in the Group are and shall remain exclusively the property of the Group and shall not be removed from the premises of the Group in any way without the prior written approval of the Group. Employees violating the confidentiality-related clauses can be dismissed.

Confidential and customer information is protected by a designated information security team and access to confidential and customer information is stringently controlled. There was no material non-compliance with laws and regulations relating to data protection during the reporting period.

(iii) Anti-corruption

The Group commits to managing all business without undue influence and has regarded honesty, integrity, and fairness as its core values. All directors and employees are required to strictly follow the Group's policy to prevent potential bribery, extortion, fraud and money laundering. The Group also established a guideline for employees in Procurement Department, which prohibits them from obtaining improper interests or benefits from suppliers.

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

(iii) Anti-corruption *(continued)*

The Group has whistle-blowing policy and procedure for employees raising possible improprieties. Concerns raised under the procedure will be taken seriously and the confidentiality of employees raising concerns will be respected until formal investigation is started. Thereafter the identity of the person who has raised the concern may be divulged only in the interest of conducting a fair and thorough investigation. The Chairman/Chief Executive or his designate will conduct initial investigations meeting and discuss the concerns raised and seek to establish the facts and further action to be taken. In the case of a concern raised against the Chairman/Chief Executive, the employee can lodge it to the independent non-executive Directors ("INED"), who shall form a committee of three to investigate the case in accordance to the procedure. The Board will be responsible for monitoring, producing and publishing results, and undertaking periodic revisions.

The Group complies with all applicable laws on prohibiting corruption and bribery of the PRC and Hong Kong. There were no concluded legal cases regarding corrupt practices brought against the Group or its employees during the reporting period.

3. Community

(i) Community Investment

On 15 March 2017, the Water Supply Development Company participated in the World Consumer Rights Day event organized by the local government, Consumer Council and Administration Bureau for Industry and Commerce. This provided a platform for employees of the Water Plants to introduce their scope of work and respond to public enquires.

The Group has no policy regarding community investment but it will consider allocating resources on community investment in the next reporting period.

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Directors' Report

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the principal subsidiaries are set out in note 43 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2017, and an indication of likely future development in the Group's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this Annual Report.

Discussion on key relationships with stakeholders of the Group is set out in the session headed "Chairman's Statement", "Management Discussion and Analysis" and " Environmental, Social and Governance Report" of this Annual Report. The above sections form part of this report of the Directors.

Environmental policies and performance

For the year ended 31 December 2017, the Group's business operation made continuous effort on minimizing damage to the environment, conserving water resources, and ensuring quality and stable water supply to the community. No non-compliance in relation to environmental and social aspects was recorded. Engagement with stakeholders has resulted in raised concerns on key material issues, which include (i) water at source, (ii) occupational health and safety, (iii) customer data protection, (iv) customer service and (v) water supply quality and safety. These aspects had already been managed by the Group and the Group will continue to keep close communication with its stakeholders for advancing its environmental, social and governance management.

Compliance with law and regulations

The Group has ongoing review and continues to update the newly enacted laws and regulations in various countries affecting the business and operation of the Group, particularly in Hong Kong and the PRC. During the year ended 31 December 2017 and up to the date of this annual report, the Group was not aware of any non-compliance with laws and regulations that has significant impact relating to relevant law and regulations in Hong Kong and the PRC in all respects.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and of the Group at 31 December 2017 are set out in the consolidated financial statements on pages 69 to 151.

No interim dividend was declared and paid during the year (2016: HK$Nil).

The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2017 (2016: HK$Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 152. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PREMIUM

The Group purchased property, plant and equipment amounting to HK$57,023,000 during the year.

Details of movements in property, plant and equipment and prepaid land lease premium of the Group during the year are set out in notes 14 and 15 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

At 31 December 2017, the investment properties of the Group were revalued by an independent valuer on an open market value basis at HK$50,775,000.

Details of movements in investment properties of the Group during the year are set out in note 16 to the consolidated financial statements.

BANK AND OTHER BORROWINGS

At 31 December 2017, the Group has secured bank loan, and unsecured government loan amounting to HK$709,852,000. Details of bank and other borrowings are set out in note 29 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 30(a) to the consolidated financial statements.

RESERVES

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 20 September 2016, Universal Technologies Capital Holdings Limited ("Capital Holdings"), a direct wholly-owned subsidiary of the Company, and Ever City Industrial Development Limited ("Ever City") entered into an acquisition agreement (the "Acquisition Agreement") pursuant to which Capital Holdings conditionally agreed to acquire from Ever City, and Ever City agreed to sell, the entire issued share capital of Hooray Asset Management Limited for a total cash consideration of HK$9,000,000 ("Proposed Acquisition"). Ms. Zhu (an executive Director and a substantial shareholder of the Company) is a director and deemed to be the controller of Ever City. In addition, as at the date of the agreement, Ever City is a substantial shareholder of the Company interested in, directly and indirectly through its subsidiary, 520,380,000 Shares, representing 24.54% of the issued share capital of the Company. Accordingly, Ever City is a connected person of the Company and the Proposed Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Ms. Zhu considered herself to have a material interest in the Proposed Acquisition and has abstained from voting on the board resolution in respect of the Acquisition Agreement. The acquisition was completed on 14 June 2017.

Save as disclosed above, there was no transactions, arrangements or contracts to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2017.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year ended 31 December 2017 and as at the date of this report were:

Executive Directors:

Chen Jinyang *(Chairman)*
Chau Cheuk Wah *(Chief Executive Officer)*
Zhou Jianhui
Zhu Fenglian
Zhang Haimei (re-designated from a non-executive Director to an executive Director on 23 April 2018)

Non-Executive Director:

Xuan Zhensheng (appointed on 23 April 2018)

Independent Non-Executive Directors:

Dr. Cheung Wai Bun, Charles, *J.P.*
David Tsoi
Chao Pao Shu George

Under article 87 of the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. A retiring Director shall be eligible for re-election at the annual general meeting.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and top five highest paid individuals of the Group are set out in note 7 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsidizing at the end of the year are set out below:

Share Options

The GEM share option schemes adopted by the Company on 12 October 2001 were terminated, upon the listing of the shares of the Company being transferred from GEM to the Main Board of the Stock Exchange on 22 June 2010. The Board adopted a new share option scheme ("New Share Option Scheme") which is compliance with the Listing Rules and obtained the approval of the shareholders in accordance with the Listing Rules at the Company's extraordinary general meeting held on 12 August 2010.

The purpose of the New Share Option Scheme is to enable the Company to grant options to participants an incentive or rewards for their contributions to the Group.

The New Share Option Scheme was adopted for a period of ten years commencing from 12 August 2010 and will remain in force until 11 August 2020, after which period no further options will be offered or granted but the provisions of the scheme shall remain in full force and effect in all other respects with regard to options granted during the life of the scheme. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The subscription price for shares in respect of any option granted shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option but in any case the subscription price for shares shall be at least not lower than the higher of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the share of the Company.

At 31 December 2017, the number of shares in respect of which options had been granted and outstanding under the New Share Option Scheme was 60,000,000, representing approximately 2.8% of the issued share capital of the Company.

A summary of the movements of the share options granted under the New Share Option Schemes during the year is as follows:–

					Number of share options						
Grantees	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2017	Market value per share at date of grant of option	Market value per share on exercise of option
Directors of the Group	25 November 2013	Fully vested on 25 November 2013	25 November 2013 to 11 August 2020	HK$0.465	60,000,000	–	–	–	60,000,000	HK$0.460	–

Note: The Company received a consideration of HK$1.00 from each of the grantees of the New Share Option Schemes.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests or short positions of the Directors and chief executives or their associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")) which (i) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:–

	Interests in ordinary shares		Total	Total		
Name of directors	Personal interests	Corporate interests	interests in ordinary shares	interests in underlying shares (note 1)	Aggregate interests	% of the Company's issued share
Mr. Chen Jinyang (note 1)	—	—	—	20,000,000	20,000,000	0.94%
Mr. Chau Cheuk Wah (note 1)	—	—	—	20,000,000	20,000,000	0.94%
Mr. Zhou Jianhui (note 1)	6,000,000	—	6,000,000	20,000,000	26,000,000	1.23%
Ms. Zhu Fenglian (note 2)	—	520,380,000	520,380,000	—	520,380,000	24.54%

Notes:

1. The interests of Mr. Chen Jinyang, Mr. Chau Cheuk Wah, and Mr. Zhou Jianhui in underlying shares of the Company represent the interests in share options granted to them under the share option schemes of the Company.

   Details of the interests in the share options of the Company are separately disclosed in the section headed "Share Options".

2. Ms. Zhu Fenglian is deemed to be interested in the 520,380,000 shares attributable to Ms. Zhu and her controlled corporation, Affluent Vast Holdings Limited ("Affluent Vast") and Ever City Industrial Development Limited ("Ever City"). For more details on the deemed interest of Ms. Zhu, Affluent Vast and Ever City, please refer to Note 1 to the section headed "Persons who have an Interest or a Short Position which is Discloseable under Divisions 2 and 3 of Part XV of the SFO and Substantial Shareholding".

3. There were no debt securities nor debentures issued by the Group at any time during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Save as disclosed above, so far as the Directors are aware as at 31 December 2017, none of the Directors or chief executives or their associates of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) are 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 they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

The Directors confirmed that as at 31 December 2017 and for the year ended 31 December 2017:–

(i) the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings according to the Model Code; and

(ii) all the Directors complied with the required standard of dealings and the Company's code of conduct regarding Directors' securities transactions.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any Director or chief executive of the Company, as at 31 December 2017, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or who have direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company were as follows:–

Long positions in the shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of interests
Ever City (note 1)	Beneficial owner and interest in controlled corporation	520,380,000	24.54%
Affluent Vast (note 1)	Interest in controlled corporation	520,380,000	24.54%
Eastcorp (note 1)	Beneficial owner	200,000,000	9.43%
Ng Tin Shui	Beneficial owner	240,000,000	11.32%
Tang Wing Hung (note 2)	Interest in controlled corporation	160,440,000	7.57%
Passion Ease Limited (note 2)	Beneficial owner	160,440,000	7.57%
Ho Shui Chee	Beneficial owner	149,170,000	7.03%

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING *(continued)*

Notes:

1. Ms. Zhu, Affluent Vast and Ever City are deemed to be interested in 520,380,000 shares of the Company, representing 24.54% of the total issued share capital of the Company, which comprises (a) 320,380,000 shares directly held by Ever City; and (b) 200,000,000 shares held by Eastcorp International Limited ("Eastcorp"). Ever City is wholly and beneficially owned by Affluent Vast. Affluent Vast is wholly and beneficially owned by Ms. Zhu. Therefore, Ever City is deemed to be a controlled corporation of Affluent Vast and Ms. Zhu. Eastcorp is wholly and beneficially owned by Ever City. Therefore, Eastcorp is deemed to be a controlled corporation of Ever City, Affluent Vast and Ms. Zhu.

2. These 160,440,000 shares are held by Passion Ease Limited, which is in turn 100% owned by Tang Wing Hung. Tang Wing Hung is deemed to be interested in the entire shareholding held by his controlled corporation, Passion Ease Limited.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at 31 December 2017, no other persons had notified the Company of any interest or short position in the shares or underlying shares of equity derivatives of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or any direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executives' interests or short positions in shares, underlying shares and debentures" and "Persons who have an interest or a short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholding" above, as at 31 December 2017, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision that provides for indemnity against liability incurred by directors and chief executives of the Group is currently in force and was in force throughout the year ended 31 December 2017.

CONNECTED TRANSACTIONS

On 20 September 2016, Universal Technologies Capital Holdings Limited ("Capital Holdings"), a direct wholly-owned subsidiary of the Company, and Ever City Industrial Development Limited ("Ever City") entered into the Acquisition Agreement pursuant to which Capital Holdings conditionally agreed to acquire from Ever City, and Ever City agreed to sell, the entire issued share capital of Hooray Asset Management Limited for a total cash consideration of HK$9,000,000. Ms. Zhu (an executive Director and a substantial shareholder of the Company) is a director and deemed to be the controller of Ever City. In addition, as at the date of the agreement, Ever City is a substantial shareholder of the Company interested in, directly and indirectly through its subsidiary, 520,380,000 Shares, representing 24.54% of the issued share capital of the Company. Accordingly, Ever City is a connected person of the Company and the proposed acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The proposed acquisition is subject to announcement and reporting requirements but exempt from the circular and independent shareholders' approval requirements. The acquisition was completed on 14 June 2017.

COMPETITION AND CONFLICT OF INTERESTS

During the year and up to the date of this annual report, to the best knowledge of the directors, none of the directors had any interests in businesses that compete or are likely to compete, either directly or indirectly, with the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 7% of the total sales for the year and sales to the largest customer included therein amounted to approximately 2%. Purchases from the Group's five largest suppliers accounted for approximately 16% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14%.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 22 to 31 of the Annual Report.

CHANGE OF AUDITOR

On 9 June 2017, PKF (大信梁學濂(香港)會計師事務所) tendered its resignation as the auditor of the Company due to its reorganisation and its subsequent change in entity status from a partnership to limited company. At the annual general meeting of the Company held on 23 June 2017, PKF Hong Kong Limited (大信梁學濂(香港)會計師事務所有限公司) was appointed as the new auditor of the Company. For details, please refer to the Company's announcements dated 9 June 2017 and 23 June 2017.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2017. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control, risk management and financial reporting matters.

AUDITOR

A resolution to re-appoint the retiring auditor, Messrs. PKF Hong Kong Limited, is to be proposed at the forthcoming general meeting.

On behalf of the Board

Chen Jinyang
Chairman

Hong Kong, 29 March 2018

Independent Auditor's Report

PKF

Accountants &
business advisers

大信梁學濂(香港)會計師事務所有限公司

26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

香港
銅鑼灣
威非路道18號
萬國寶通中心26樓

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL TECHNOLOGIES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Universal Technologies Holdings Limited and its subsidiaries (together the "Group") set out on pages 69 to 151, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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
<u>**Impairment assessment of goodwill and intangible assets**</u> Refer to notes 17 and 18 in the consolidated financial statements. The Group has goodwill of HK$99,037,000 and intangible assets of HK$411,342,000 respectively relating to the water supply business and financial services segments. No impairment has been made over these balances. Given the nature of these assets, the assessment of impairment involves significant estimation uncertainty, subjective assumptions and application of significant judgement. In the annual impairment review, management has concluded that there is no impairment in respect of the goodwill and intangible assets. This conclusion was based on a value-in-use model that required significant management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth.	Our audit procedures in relation to management's impairment assessment included: — Obtain an understanding of the Group's procedures and method of estimation, including any control activities applied, significant assumptions made and management's assessment of estimation uncertainty; — Re-calculate the estimation made by the management; — Review outcome of estimation made in prior period; — Evaluate whether the method of estimation and assumptions made are appropriate; — Test the data used by the management in the estimation; — Review subsequent events relevant to the estimation; — Determine whether indication of possible management bias exists; and — Evaluate the recognition and measurement criteria used and disclosure made by management.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

We communicate with those charged with governance 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 those charged with governance 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.

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

PKF Hong Kong Limited
Certified Public Accountants
Tsui Kar Lam, Karen
Practising Certificate Number P06426
Hong Kong, 29 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Continuing operations			
Revenue	4	**248,536**	306,671
Cost of sales/services rendered		**(155,917)**	(194,743)
Gross profit		**92,619**	111,928
Other revenue	4	**10,994**	8,993
Other income	5	**21,755**	12,186
General and administrative expenses		**(63,070)**	(72,793)
Profit from operations		**62,298**	60,314
Increase in fair value of investment properties	16	**5,343**	4,582
Impairment loss on debtors	22	**(504)**	(33)
Impairment loss on other receivables		**—**	(130)
Loss on disposal of intangible assets		**—**	(1,333)
Finance costs	6(a)	**(27,235)**	(23,336)
Profit before income tax	6	**39,902**	40,064
Income tax expense	8	**(15,326)**	(23,652)
Profit for the year from continuing operations		**24,576**	16,412
Discontinued operations			
Loss for the year from discontinued operations	9	**—**	(21,112)
Profit/(loss) for the year		**24,576**	(4,700)
Attributable to: –			
Shareholders of the Company		**2,660**	(25,171)
Non-controlling interests		**21,916**	20,471
Profit/(loss) for the year		**24,576**	(4,700)
Earnings/(loss) per share (in cents)	12		
From continuing and discontinued operations			
– Basic		**0.13**	(1.19)
– Diluted		**0.13**	(1.19)
From continuing operations			
– Basic		**0.13**	(1.01)
– Diluted		**0.13**	(1.01)
From discontinued operations			
– Basic		**—**	(0.18)
– Diluted		**—**	(0.18)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017	2016
	HK$'000	HK$'000
Profit/(loss) for the year	**24,576**	(4,700)
Other comprehensive income/(loss):–		
Items that may be reclassified subsequently to profit or loss:–		
Exchange differences arising on translation of:–		
— Financial statements of overseas subsidiaries	**3,767**	(12,552)
— Financial statements of an overseas associate	**—**	110
— Release of exchange reserve upon disposals of subsidiaries	**—**	6,297
Other comprehensive income/(loss) for the year, net of tax	**3,767**	(6,145)
Total comprehensive income/(loss) for the year	**28,343**	(10,845)
Total comprehensive income/(loss) attributable to:–		
Shareholders of the Company	**(2,211)**	(9,111)
Non-controlling interests	**30,554**	(1,734)
	28,343	(10,845)

Consolidated Statement of Financial Position

At 31 December 2017

	Note	**2017 HK$'000**	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**503,874**	459,154
Prepaid land lease premium	15	**30,533**	22,216
Investment properties	16	**50,775**	44,820
Intangible assets	17	**411,342**	398,112
Goodwill	18	**99,037**	90,290
Deposit paid for acquisition of property, plant and equipment	20	**14,249**	13,244
		1,109,810	1,027,836
CURRENT ASSETS			
Inventories	21	**4,713**	2,606
Debtors	22	**26,305**	23,154
Deposits, prepayments and other receivables	23	**10,702**	7,024
Prepaid land lease premium	15	**693**	97
Fixed deposits		**80,716**	34,643
Pledged time deposit	29	**291,239**	262,898
Cash and bank balances	24	**230,420**	402,992
		644,788	733,414
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	29	**344,968**	312,195
Trade payables	25	**33,154**	2,433
Payable to merchants	26	**3,017**	3,008
Deposits received, sundry creditors and accruals	27	**177,245**	193,646
Amounts due to related companies	28	**39,383**	76,499
Tax payable		**3,635**	16,690
		601,402	604,471
NET CURRENT ASSETS		**43,386**	128,943

Consolidated Statement of Financial Position

At 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,153,196**	1,156,779
DEDUCT:			
NON-CURRENT LIABILITIES			
Bank and other borrowings	29	**364,884**	398,176
Deferred tax liabilities	10(a)	**66,751**	65,385
		431,635	463,561
NET ASSETS		**721,561**	693,218
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	30(a)	**21,205**	21,205
Reserves	32	**484,992**	487,203
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**506,197**	508,408
NON-CONTROLLING INTERESTS		**215,364**	184,810
TOTAL EQUITY		**721,561**	693,218

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 29 MARCH 2018

CHEN JINYANG
DIRECTOR

CHAU CHEUK WAH
DIRECTOR

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax			
— Continuing operations		**39,902**	40,064
— Discontinued operations	9	**–**	(20,975)
Adjustments for:-			
Interest on bank deposits		**(10,755)**	(15,121)
Interest expenses		**26,440**	26,168
Dividend income		**–**	(16)
Depreciation		**35,181**	41,874
Amortisation of prepaid land lease premium		**733**	794
Amortisation of intangible assets		**16,330**	19,141
Share of results of an associate		**–**	41
Loss on disposal of property, plant and equipment		**17**	83
Increase in fair value of investment properties		**(5,343)**	(4,582)
Gain on change in fair value of financial assets		**–**	(320)
Loss on disposal of financial assets		**–**	505
Gain on disposals of subsidiaries	34	**–**	(2,000)
Impairment loss on debtors		**504**	70
(Reversal of)/impairment loss on other receivables		**(56)**	673
Loss on disposal of intangible assets		**–**	1,333
Write-down of inventories		**–**	505
Gain on early extinguishment of bank loans		**–**	(11,609)
Unrealised exchange (gain)/loss		**(6,587)**	18,123
Gain on bargain purchase		**–**	(166)
Operating profit before working capital changes		**96,366**	94,585
Increase in inventories		**(2,107)**	(868)
Increase in debtors		**(3,655)**	(252,041)
Increase in other deposits, prepayments and other receivables		**(1,811)**	(49,256)
Increase in trade payables		**30,721**	545
Increase in payable to merchants		**–**	366,552
Increase in deposits received, sundry creditors and accruals		**14,847**	4,816
Decrease in amounts due to a related companies		**(37,116)**	(47,297)
Cash from operations		**97,245**	117,036
Bank interest received		**8,960**	13,384
Tax paid		**(28,829)**	(20,489)
NET CASH FROM OPERATING ACTIVITIES		**77,376**	109,931

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		–	16
Payments to acquire property, plant and equipment		(80,591)	(67,702)
Proceeds from disposal of property, plant and equipment		8	722
Payments to acquire investment properties		–	(30,799)
Payments to acquire intangible assets		(6,410)	(83,872)
Proceeds from disposal of intangible assets		–	46
Deposit paid for acquisition of property, plant and equipment		(1,005)	—
Payments to acquire financial assets at fair value through profit and loss		–	(27,871)
Proceeds from disposal of financial assets at fair value through profit and loss		–	28,668
Net cash (outflow)/inflow from acquisition of subsidiaries	33(a),(b)	(8,773)	103
Net cash outflow from disposals of subsidiaries	34	–	(302,467)
NET CASH USED IN INVESTING ACTIVITIES		(96,771)	(483,156)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in pledged time deposit		(284,643)	—
Release of pledged time deposit		262,898	—
Proceeds from new bank loans		272,659	499,812
Interest paid		(34,228)	(35,534)
Repayment of bank loans		(336,703)	(323,078)
Dividend paid to non-controlling shareholder of a subsidiary		–	(20,866)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		(120,017)	120,334
NET DECREASE IN CASH AND CASH EQUIVALENTS		(139,412)	(252,891)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		12,913	(10,463)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		437,635	700,989
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		311,136	437,635
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		230,420	402,992
Fixed deposits		80,716	34,643
		311,136	437,635

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to shareholders of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Share options reserve HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1.1.2016	21,205	513,344	481	1,093	10,754	3,107	4,396	30,244	(57,878)	(9,227)	517,519	367,522	885,041
Acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	316	316
Disposals of subsidiaries	–	–	–	–	–	–	–	(30,722)	57,878	(27,156)	–	(160,428)	(160,428)
Lapse of share options granted in prior years	–	–	–	–	–	–	(399)	–	–	399	–	–	–
Dividend paid to non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(20,866)	(20,866)
Total comprehensive income/(loss) for the year	–	–	–	–	–	16,060	–	–	–	(25,171)	(9,111)	(1,734)	(10,845)
Transferred to statutory reserve	–	–	–	–	–	–	–	5,478	–	(5,478)	–	–	–
At 31.12.2016 and 1.1.2017	21,205	513,344	481	1,093	10,754	19,167	3,997	5,000	–	(66,633)	508,408	184,810	693,218
Total comprehensive (loss)/income for the year	–	–	–	–	–	(4,871)	–	–	–	2,660	(2,211)	30,554	28,343
Transferred to statutory reserve	–	–	–	–	–	–	–	6,814	–	(6,814)	–	–	–
At 31.12.2017	21,205	513,344	481	1,093	10,754	14,296	3,997	11,814	–	(70,787)	506,197	215,364	721,561

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 27 March 2001 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Room A & B2, 11/F, Guangdong Investment Tower, No. 148 Connaught Road Central, Sheung Wan, Hong Kong.

Pursuant to the reorganisation to rationalise the structure of the Company and its subsidiaries in the preparation for the listing of the Company's shares on GEM operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in October 2001, the Company became the holding company of the companies now comprising the Group. The shares of the Company were listed on GEM on 26 October 2001.

On 22 June 2010, the listing of shares of the Company was transferred to the Main Board of the Stock Exchange.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:–

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all application individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

In addition, the consolidated financial statements comply with all applicable disclosures provisions of the Rules Governing the Listing of Securities on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Initial application of revised HKFRSs

In the current year, the Group initially applied the following revised HKFRSs:–

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual improvements (2014-2016)	Amendments to HKFRS 12

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Initial application of revised HKFRSs *(continued)*

Except for Amendments to HKAS 7 disclosed below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's consolidated financial statements for the current and prior years.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the information for the current year in the consolidated financial statements.

(c) Measurement basis

The consolidated financial statements are prepared under the historical cost basis as modified by revaluation of investment properties as explained in the accounting policies set out below.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. 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.

The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated statement of profit or loss from the dates of acquisition or to the dates of disposal respectively. All significant intra-group transactions and balances have been eliminated on consolidation.

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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to shareholders 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 comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

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.

(e) Subsidiaries

Subsidiaries are entities controlled by the Group.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less provision for impairment losses. Income from subsidiaries is recognised in the Company's financial statements when the shareholder's right to receive payment is established.

(f) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in financial and operating policy decisions.

The results and assets and liabilities of an associate are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, the consolidated statement of profit or loss includes the Group's share of the post-acquisition results of the associates and the consolidated statement of financial position includes the Group's share of the net assets of the associate, as reduced by any identified impairment losses.

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.

(g) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management that makes strategic decisions.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Foreign currency translation

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

Foreign currency transactions of the Group are initially recorded in the functional currency using the exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at the end of the reporting period and the exchange differences arising are recognised in profit or loss. Non-monetary items carried at fair value denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined and the exchange differences arising are recognised in profit or loss except for the exchange component of a gain or loss that is recognised directly in equity.

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 at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Such translation differences are reclassified from equity to profit or loss when in which the foreign operation is disposed of.

(i) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less aggregate depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the plant and equipment have been put into operation, such as repairs and maintenance, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the plant and equipment, the expenditure is capitalised as an additional cost of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated to write off the cost of property, plant and equipment less any estimated residual value, on a straight-line basis over their estimated useful lives as follows:–

Leasehold land	— unexpired term of the lease
Leasehold buildings	— 15 years – 47 years
Leasehold improvement	— Shorter of 5 years and the unexpired term of the lease
Plant and machinery	— 5 years – 20 years
Office equipment, computer and other equipment	— 5 years
Furniture and fixtures	— 3 years – 5 years
Motor vehicles	— 3 years – 5 years
Water pipelines	— 15 years – 20 years

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

Construction in progress represents buildings and water pipelines under construction and is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the construction work is completed and ready for use.

Gain or loss arising from the retirement or disposal of a plant and equipment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss on the date of retirement or disposal.

(j) Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 2(k).

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Lease

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the periods of the respective leases.

(l) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases is classified and accounted for as investment property when the rest definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment property is measured initially at cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Intangible assets

(i) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:–

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

(ii) Computer software and technology

Computer software and technology is recognised when the project under development expenditure was completed. Amortisation is calculated using the straight-line basis over their estimated economic lives of three years.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Intangible assets *(continued)*

(iii) Domain name

Domain name recognised and measured at fair value at the acquisition date. Domain name has an indefinite useful life and is carried at cost less accumulated impairment losses.

(iv) Rights to operate water supply plants in the People's Republic of China (the "PRC") under service concession arrangement

The Group acquired the rights to operate certain water supply plants in the PRC under service concession arrangement through business combination. The cost of the rights acquired in a business combination is fair value at the date of acquisition. Amortisation for the rights to operate certain water supply plants with finite useful lives is provided on straight-line basis over their estimated useful lives of 10 to 20 years. Both period and method of amortisation are reviewed annually.

(n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(o) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value represents the estimated selling price less direct selling costs.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Service concession arrangements

The Group entered into a service concession arrangement with government authority in Qingyuan, the PRC, on a build-operate-transfer ("BOT") basis under its water supply segment. The service concession arrangement generally involve the Group as an operator (i) constructing water supply plants for those arrangements on a BOT basis; and (ii) operating and maintaining the water supply plants at a specified level of serviceability on behalf of the relevant governmental authority for a period of 20 years from 21 November 2006 to 21 November 2026 (the "Service Concession Periods"), and the Group will be paid for its services over the relevant Service Concession Periods at prices stipulated through a pricing mechanism.

The Group is generally entitled to use all the property, plant and equipment of the water supply plants, however, the relevant governmental authority as grantors will control and regulate the scope of services the Group must provide with the water supply plants, and retain the beneficial entitlement to any residual interest in the water supply plants at the end of the term of the Service Concession Periods.

The service concession arrangement is governed by a contract entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the water supply plants to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

The Group recognises the consideration received or receivable in exchange for the construction services rendered as an intangible asset (note 17) as the Group receives a right to charge users of the water supply service.

Service concession arrangements are accounted for as follows if:–

(i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

(ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

Infrastructure constructed by the Group under service concession arrangement is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the infrastructure to the Group. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Service concession arrangements *(continued)*

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangement are recognised at their fair value as a financial asset or an intangible asset.

A financial asset (loan and receivable) 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 (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

An intangible asset (concession intangible asset) 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 (concession intangible asset) is accounted for in accordance with the policy set out in note 2(m)(iv).

Construction or upgrade services

Revenue and costs relating to construction and upgrade services are accounted for in accordance with the policy set out in note 2(r).

Operating services

Revenue relating to operating services are accounted for in accordance with the policy set out in note 2(ab).

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence, that is (a) to maintain the water supply plants that it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the water supply plants are recognised and measured in accordance with the policy set out in note 2(aa).

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Construction contracts

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

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense 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 progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

(s) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss.

(t) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(v) Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument, initially measured at fair value plus transaction costs and subsequently measured at amortised cost, unless they are initially and subsequently measured at fair value. Financial liabilities are de-recognised when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of the financial liabilities de-recognised and any consideration paid is recognised in profit or loss.

(w) 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(x) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(y) Income tax

Income tax expense for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(l), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Employee benefits

Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the PRC central pension scheme, are recognised as an expense in profit or loss as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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 expenditures expected to settle the obligation.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ab) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:–

(i) Revenue from the provision of enterprise solutions services is recognised on a straight-line basis over the period in which the work is performed.

(ii) Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(iii) Handling income from online payment platform transaction is recognised when the transaction is authorised and completed.

(iv) Annual fee income of online payment platform services is recognised on a straight-line basis over the years of the services.

(v) Revenue arising from water supply is recognised based on water supplied as recorded by meters read during the period.

(vi) Water supply related installation, construction and maintenance income is recognised when services are rendered.

(vii) Revenue from long-term construction contracts is recognised by reference to the percentage of completion of the contract at the reporting date (note 2(r)).

(viii) Set up fee income of online payment platform services is recognised at the time when the services are rendered.

(ix) Interest income is recognised on a time proportion basis using the effective interest method.

(x) Dividend income is recognised at the time when the shareholders' right to receive payment has been established.

(xi) Rental income receivable under operating lease is recognised on a straight-line basis over the terms of the relevant lease.

(xii) Building management service income is recognised over the relevant period in which the services are rendered.

(xiii) Consultancy service fee income is recognised over the relevant period in which the services are rendered.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ac) Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:–

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ad) 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;

(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); or

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ae) HKFRSs in issue but not yet effective

The following HKFRSs in issue at 31 December 2017 have not been applied in the preparation of the Group's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2017:–

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

The Group is required to initially apply HKFRS 9, HKFRS 15, HK(IFRIC) Int-22, Amendments to HKAS 40, Amendments to HKFRS 2, Amendments to HKFRS 4 and Annual Improvements (2014-2016) in its annual consolidated financial statements beginning on 1 January 2018, and to initially apply HKFRS 16, HK(IFRIC)-Int 23 and Amendments to HKFRS 9 in its annual consolidated financial statements beginning on 1 January 2019. Amendments to HKAS 28 and HKFRS 10 have no mandatory effective date.

The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ae) HKFRSs in issue but not yet effective *(continued)*

Key requirements of HKFRS 9 which are relevant to the Group are:

- 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. 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.

- 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 might result in earlier provision of credit losses in relation to the Group's trade receivables measured at amortised costs. However, management expects the effect would not be significant.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ae) HKFRSs in issue but not yet effective *(continued)*

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 of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they 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.

HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the end of the reporting period, the Group has non-cancellable operating lease commitments of HK$8,146,000 (Note 35). The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ae) HKFRSs in issue but not yet effective *(continued)*

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. 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.

Amendments to HKAS 40 "Transfer of Investment Property"

The HKICPA issued amendments to HKAS 40 in April 2017 to clarify that, to transfer to or from investment properties, there must be a change in use. A change in use would involve (i) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (ii) supporting evidence that a change in use has occurred. The amendments also re-characterised the list of circumstances in HKAS 40.57(a)-(d) as a non-exhaustive list of examples to allow for other circumstances to be accounted for as a transfer, as long as that change is supported by appropriate evidence. The amendments are effective for annual periods beginning on or after 1 January 2018. The Group has assessed the impact of the amendments and expects that the amendments will not have significant impact, when applied, on the consolidated financial statements of the Group.

Save as discussed above, all other new standards, amendments to standards and interpretations issued but not yet effective are not likely to have significant impact on the consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2 to the consolidated financial statements, management had made the following estimates and assumptions that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Inventories

In note 2(p) to the consolidated financial statements describes that inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The Group does not have a general provisioning policy on inventory based on ageing given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as majority of working capital is devoted to inventories. The sales and marketing managers review the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regards, the directors of the Group are satisfied that this risk is minimal and adequate provision for obsolete and slow-moving inventories has been made in the consolidated financial statements.

(ii) Depreciation

The management determines the estimated useful lives and related depreciation of the property, plant and equipment as set out in note 2(i) to the consolidated financial statements. The estimate is based on projected lifecycles of the assets. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using straight-line method.

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

(a) Key sources of estimation uncertainty *(continued)*

(iii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cashgenerating 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 present value. The carrying amount of goodwill at the end of the reporting period was HK$99,037,000 (2016: HK$90,290,000). Details of the impairment loss calculation are provided in note 18 to the consolidated financial statements.

(iv) Estimation of fair value of investment properties

Investment properties were revalued at 31 December 2017 based on the appraised market value by an independent valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amount of investment properties at 31 December 2017 was HK$50,775,000 (2016: HK$44,820,000).

(v) PRC enterprise income tax and deferred tax

The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgment based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will have impact on the income tax and deferred tax provisions in the year in which the differences realise.

(vi) Construction contracts

As explained in accounting policies stated in notes 2(r) and 2(ab), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimated of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the reporting date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts record to date.

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

(b) Critical judgements

In the process of applying the Group's accounting policies, judgements that can significantly affect the amounts recognised in the consolidated financial statements are made in determining:–

(i) whether the significant risks and rewards of ownership of goods have been transferred to the buyer;

(ii) whether there is an indication of impairment of assets;

(iii) the expected manner of recovery of the carrying amount of assets;

(iv) whether the discount rates used to calculate the recoverable amount of goodwill and other assets are appropriate for the purpose of impairment review; and

(v) the valuation method used to calculate the fair value of share options at the measurement date.

4. REVENUE AND OTHER REVENUE

The Group is principally engaged in investment holding, property investment and development, building management and water supply and related services. The payment solutions and related services, system integration and technical platform services of the Group were disposed of and regarded as discontinued operations during the year ended 31 December 2016. Revenue for the year represents revenue recognised from rental and building management service income and water supply and related services income. An analysis of the Group's revenue and other revenue is set out below:–

	Continuing operations		Discontinued operations		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Payment solutions and related services income	**—**	—	**—**	136,812	**—**	136,812
Rental and building management service income	**2,423**	2,268	**—**	864	**2,423**	3,132
Water supply and related services income	**246,113**	304,403	**—**	—	**246,113**	304,403
Revenue	**248,536**	306,671	**—**	137,676	**248,536**	444,347
Interest on bank deposits	**10,755**	8,753	**—**	6,368	**10,755**	15,121
Government subsidy	**239**	240	**—**	158	**239**	398
Consultancy service income	**—**	—	**—**	36,895	**—**	36,895
Dividend income	**—**	—	**—**	16	**—**	16
Other revenue	**10,994**	8,993	**—**	43,437	**10,994**	52,430
Total revenue	**259,530**	315,664	**—**	181,113	**259,530**	496,777

5. OTHER INCOME

	Continuing operations 2017 HK$'000	Continuing operations 2016 HK$'000	Discontinued operations 2017 HK$'000	Discontinued operations 2016 HK$'000	Total 2017 HK$'000	Total 2016 HK$'000
Gain on change in fair value of financial assets at fair value through profit or loss	**—**	—	**—**	320	**—**	320
Gain on early extinguishment of bank loans	**—**	11,609	**—**	—	**—**	11,609
Reversal of impairment loss on other receivables	**56**	—	**—**	—	**56**	—
Exchange gain	**21,227**	—	**—**	—	**21,227**	—
Others	**472**	577	**—**	998	**472**	1,575
	21,755	12,186	**—**	1,318	**21,755**	13,504

6. PROFIT BEFORE INCOME TAX

(a) Finance costs

	Continuing operations 2017 HK$'000	Continuing operations 2016 HK$'000	Discontinued operations 2017 HK$'000	Discontinued operations 2016 HK$'000	Total 2017 HK$'000	Total 2016 HK$'000
Profit before income tax is arrived at after charging/(crediting):–						
Interest on bank loans	**32,413**	32,490	**—**	3,044	**32,413**	35,534
Less: interest capitalised included in property, plant and equipment and other intangible assets (note)	**(5,973)**	(9,366)	**—**	—	**(5,973)**	(9,366)
Bank charges	**795**	212	**—**	366	**795**	578
	27,235	23,336	**—**	3,410	**27,235**	26,746

Note:

The capitalisation rate was ranged from 5.12% to 5.46% (2016: 4.29% to 5.64%).

6. PROFIT BEFORE INCOME TAX *(continued)*

(b) Other items

	Continuing operations 2017 HK$'000	Continuing operations 2016 HK$'000	Discontinued operations 2017 HK$'000	Discontinued operations 2016 HK$'000	Total 2017 HK$'000	Total 2016 HK$'000
Auditor's remuneration						
— Audit services	1,052	1,380	—	—	1,052	1,380
— Other services	611	1,152	—	—	611	1,152
	1,663	2,532	—	—	1,663	2,532
Cost of inventories sold	2,678	2,423	—	156	2,678	2,579
Staff costs (including directors' remuneration)						
— Salaries and other benefits	39,066	37,391	—	104,660	39,066	142,051
— Pension scheme contributions	3,355	2,966	—	21,822	3,355	24,788
	42,421	40,357	—	126,482	42,421	166,839
Depreciation	35,181	33,307	—	8,567	35,181	41,874
Impairment loss on debtors	504	33	—	37	504	70
(Reversal of)/impairment loss on other receivables	(56)	130	—	543	(56)	673
Write-down of inventories	—	—	—	505	—	505
Amortisation of intangible assets	16,330	18,944	—	197	16,330	19,141
Amortisation of prepaid land lease premium	733	621	—	173	733	794
Gain on change in fair value of financial assets at fair value through profit or loss	—	—	—	(320)	—	(320)
Minimum operating lease rentals	2,808	2,797	—	18,272	2,808	21,069
Sale proceeds of intangible assets	—	(46)	—	—	—	(46)
Less: carrying amounts of intangible assets	—	1,379	—	—	—	1,379
Loss on disposal of intangible assets	—	1,333	—	—	—	1,333
Sale proceeds of property, plant and equipment	(8)	(6)	—	(716)	(8)	(722)
Less: carrying amounts of property, plant and equipment	25	78	—	727	25	805
Loss on disposal of property, plant and equipment	17	72	—	11	17	83
Loss on disposal of financial assets at fair value through profit or loss	—	—	—	505	—	505
Exchange (gain)/loss	(21,227)	20,957	—	1,066	(21,227)	22,023
Gain on early extinguishment of bank loans	—	(11,609)	—	—	—	(11,609)
Gain on bargain purchase	—	—	—	(166)	—	(166)
Rental income less direct outgoings of HK$1,494,000 (2016: HK$1,203,000)	(929)	(1,196)	—	(733)	(929)	(1,929)

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors

Directors' remuneration is as follows:–

	Year ended 31 December 2017					
Name of director	Fees HK$'000	Salaries, allowances and other benefits in kind HK$'000 (note i)	Pension scheme contributions HK$'000	Sub-total HK$'000	Share based payment HK$'000	Total HK$'000
Mr. Zhou Jianhui	60	1,560	18	1,638	—	1,638
Mr. Chen Jinyang	60	1,560	—	1,620	—	1,620
Dr. Cheung Wai Bun, Charles, *J.P.*	360	—	—	360	—	360
Mr. Chau Cheuk Wah	60	2,145	18	2,223	—	2,223
Mr. Chao Pao Shu, George	240	—	—	240	—	240
Mr. David Tsoi	240	—	—	240	—	240
Ms. Zhang Haimei	300	—	—	300	—	300
Ms. Zhu Fenglian (note iii)	60	1,560	—	1,620	—	1,620
	1,380	6,825	36	8,241	—	8,241

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors *(continued)*

	Year ended 31 December 2016					
Name of director	Fees HK$'000	Salaries, allowances and other benefits in kind HK$'000 (note i)	Pension scheme contributions HK$'000	Sub-total HK$'000	Share based payment HK$'000	Total HK$'000
Mr. Zhou Jianhui	60	1,560	18	1,638	—	1,638
Mr. Chen Jinyang	60	1,560	—	1,620	—	1,620
Dr. Cheung Wai Bun, Charles, *J.P.*	360	—	—	360	—	360
Mr. Chau Cheuk Wah	60	2,145	18	2,223	—	2,223
Mr. Chao Pao Shu, George	240	—	—	240	—	240
Mr. David Tsoi	240	—	—	240	—	240
Mr. Chan Chun Kau (note ii)	9	—	—	9	—	9
Ms. Zhang Haimei	300	—	—	300	—	300
Ms. Zhu Fenglian (note iii)	37	890	—	927	—	927
	1,366	6,155	36	7,557	—	7,557

Notes :–

i. Salaries, allowances and other benefits in kind included basic salaries, housing and other allowances, benefits in kind and employee share option benefits. The employee share option benefits represent fair value at the date the share options were granted and accepted under the scheme amortised to the statement of profit or loss during the year disregarding whether the options have been exercised or not.

ii. Resigned on 13 January 2016.

iii. Appointed on 19 May 2016.

No directors waived any emolument during the year.

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, of which four (2016: four) are directors of the Company and the details of their remuneration have already been disclosed above.

The emoluments and designated band of the remaining highest paid individual (2016: one) was as follows:–

	2017	2016
	HK$'000	HK$'000
Salaries, allowances and other benefits in kind	**803**	780
Pension scheme contributions	**18**	18
	821	798

	2017	2016
HK$		
Nil to 1,000,000	**1**	1
1,000,001 to 1,500,000	**—**	—
	1	1

During the year, no share option (2016: Nil) was granted to the above highest paid employees in respect of their services to the Group.

During the year, no emolument was paid by the Group to the five highest paid employees, including the directors of the Company, as an inducement to join, or upon joining the Group.

8. INCOME TAX EXPENSE

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year.

The Company's subsidiaries operating in the PRC and Australia are subject to the tax rate at 25% and 30% respectively (2016: PRC at 25%).

During the year, no preferential tax rate was entitled by the Group (2016: pursuant to relevant laws and regulations in the PRC and with approval from tax authorities in charge, one of the Groups' subsidiaries qualified as a High and New Technology Enterprise and was entitled to the preferential tax rate of 15%).

(b) The income tax expense represents the sum of the current tax and deferred tax and is made up as follows:–

	Continuing operations		**Discontinued operations**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current tax:						
Current year	**15,497**	21,476	**—**	410	**15,497**	21,886
(Over)/under-provision in respect of previous years	**(46)**	6	**—**	(273)	**(46)**	(267)
	15,451	21,482	**—**	137	**15,451**	21,619
Deferred taxation (Note 10(a)):						
Current year	**(125)**	2,170	**—**	—	**(125)**	2,170
	15,326	23,652	**—**	137	**15,326**	23,789

8. INCOME TAX EXPENSE *(continued)*

(c) The income tax expense for the year can be reconciled to the profit per consolidated statement of profit or loss as follows:–

2017	Continuing operations			
	HK HK$000	PRC HK$000	AUS HK$000	Total HK$000
(Loss)/profit before income tax	(5,657)	45,625	(66)	39,902
Applicable tax rate (%)	16.5	25	30	N/A
Tax on (loss)/profit before income tax, calculated at the applicable tax rate	(933)	11,406	(20)	10,453
Tax effect of non-deductible expenses in determining taxable profit	1,791	1,135	20	2,946
Tax effect of non-taxable income in determining taxable profit	(5,041)	(305)	—	(5,346)
Tax effect of unrecognised decelerated depreciation allowance	148	—	—	148
Tax effect of unrecognised tax loss	4,035	3,136	—	7,171
Over-provision in respect of previous year	—	(46)	—	(46)
Income tax expense	—	15,326	—	15,326

2016	Continuing operations			Discontinued operations			
	HK HK$000	PRC HK$000	Sub-total HK$000	HK HK$000	PRC HK$000	Sub-total HK$000	Total HK$000
(Loss)/profit before income tax	(36,260)	76,324	40,064	(14,754)	(6,221)	(20,975)	19,089
Applicable tax rate (%)	16.5	25	N/A	16.5	25	N/A	N/A
Tax on (loss)/profit before income tax, calculated at the applicable tax rate	(5,983)	19,081	13,098	(2,434)	(1,555)	(3,989)	9,109
Tax effect of non-deductible expenses in determining taxable profit	4,224	9,351	13,575	28	9,555	9,583	23,158
Tax effect of non-taxable income in determining taxable profit	(1,935)	(8,035)	(9,970)	(358)	(8,560)	(8,918)	(18,888)
Tax effect of unrecognised decelerated/ (accelerated) depreciation allowance	144	5	149	182	(97)	85	234
Tax effect of unrecognised tax loss	3,550	3,244	6,794	2,582	1,067	3,649	10,443
Under/(over)-provision in respect of previous year	—	6	6	—	(273)	(273)	(267)
Income tax expense	—	23,652	23,652	—	137	137	23,789

9. DISCONTINUED OPERATIONS

On 2 November 2016, the Group and Brilliant Dragon Investment Limited ("Brilliant Dragon") entered into the Sale and Purchase Agreement ("SP Agreement"), pursuant to which the Group conditionally agreed to sell and Brilliant conditionally agreed to acquire 51% equity interest of International Payment Solutions Holdings Limited ("IPSH") and net shareholders loans at a total consideration of HK$158,000,000. Upon completion of the disposal, IPSH and its subsidiaries ceased to be subsidiaries of the Group. The SP Agreement and the transaction contemplated thereunder were approved at the extraordinary general meeting of the Company held on 16 December 2016. Details of the disposal are set out in the Company's announcement dated 2 November 2016 and the Company's circular dated 30 November 2016.

Following completion of the disposal of the entire equity interest of IPSH (Note 34), details of which are set out in the announcement of the Company dated 23 December 2016, the Group no longer continued to carry on business in provision of payment solutions.

The results from discontinued operations for the year ended 31 December 2016 were as follows:–

	Note	HK$'000
Revenue	4	137,676
Cost of services rendered		(156)
Gross profit		137,520
Other revenue	4	43,437
Other income	5	1,318
General and administrative expenses		(201,467)
Loss from operations		(19,192)
Gain on bargain purchase		166
Impairment loss on debtors		(37)
Impairment loss on other receivables		(543)
Share of results of an associate	19	41
Finance costs	6(a)	(3,410)
Gain on disposals of subsidiaries		2,000
Loss before income tax	6	(20,975)
Income tax expense	8	(137)
Loss for the year from discontinued operations		(21,112)
Loss for the year from discontinued operations attributable to:–		
Shareholders of the Company		(3,702)
Non-controlling interests		(17,410)
		(21,112)

9. DISCONTINUED OPERATIONS *(continued)*

The net cash flows incurred by discontinued operations for the year ended 31 December 2016 were as follows:–

	HK$'000
Cash flows from discontinued operations	
Net cash generated from operating activities	47,772
Net cash used in investing activities	(39,550)
Net cash used in financing activities	(27,914)
Net cash outflow	(19,692)

10. DEFERRED TAXATION

(a) The following is deferred tax assets/(liabilities) recognised by the Group and movements hereon during the current year and prior year:–

	Impairment loss on debtors HK$'000	Accelerated depreciation allowances of property, plant and equipment and revaluation of investment properties HK$'000	Temporary differences on intangible assets recognised under service concession arrangement HK$'000	Total HK$'000
At 1.1.2016	202	(42,824)	(22,210)	(64,832)
Disposals of subsidiaries – Note 34	(189)	527	—	338
Charged to profit or loss – Note 8(b)	—	(1,616)	(554)	(2,170)
Exchange adjustments	(13)	614	678	1,279
At 31.12.2016 and 1.1.2017	—	(43,299)	(22,086)	(65,385)
Credited/(charged) to profit or loss – Note 8(b)	—	291	(166)	125
Exchange adjustments	—	(656)	(835)	(1,491)
At 31.12.2017	**—**	**(43,664)**	**(23,087)**	**(66,751)**

10. DEFERRED TAXATION *(continued)*

(a) *(continued)*

Represented by:–

	2017 **HK$'000**	2016 HK$'000
Deferred tax assets	**—**	—
Deferred tax liabilities	**(66,751)**	(65,385)
	(66,751)	(65,385)

(b) The components of unrecognised deductible/(taxable) temporary differences of the Group are as follows:–

	2017 **HK$'000**	2016 HK$'000
Deductible temporary differences – note (i)		
Decelerated tax allowances	**760**	—
Unutilised tax losses	**204,147**	167,144
Taxable temporary difference – note (ii)	**204,907**	167,144
Accelerated tax allowances	**—**	(139)
	204,907	167,005

Notes:–

(i) Deductible temporary difference has not been recognised in these consolidated financial statements owing to the absence of objective evidence in respect of availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary difference. Included in unrecognised tax losses are losses of HK$31,638,000 (2016: HK$19,093,000) that will expire within five years from the date of incurrence. Other losses can be carried forward indefinitely.

(ii) Taxable temporary difference has not been recognised in these consolidated financial statements owing to its immateriality.

(c) As at 31 December 2017, temporary difference relating to the undistributed profits of the Company's subsidiaries in the PRC was RMB94,093,000 (equivalent to approximately HK$112,987,000) (2016: RMB69,241,000 (equivalent to approximately HK$77,315,000)). The related deferred tax liabilities of approximately HK$5,649,000 (2016: HK$3,866,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of the subsidiaries and the directors have determined that these retained profits are not likely to be distributed in the foreseeable future.

11. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2017 (2016: Nil).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share for the year is based on the following data:–

	Continuing operations		Discontinued operations		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit/(loss)						
Profit/(loss) for the year attributable to shareholders of the Company	**2,660**	(21,469)	**—**	(3,702)	**2,660**	(25,171)

	2017	2016
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of calculation of basic earnings/(loss) per share	**2,120,448,858**	2,120,448,858
Effect of diluted potential ordinary shares as a result of the share options granted	**—**	—
Weighted average number of ordinary shares in issue for the purpose of calculation of diluted earnings/(loss) per share	**2,120,448,858**	2,120,448,858

For the year ended 31 December 2017, diluted earnings per share was equal to the basic earnings per share because the exercise price of the Group's share option was higher than the average market price of the Company's shares.

For the year ended 31 December 2016, the computation of diluted loss per share did not assume the conversion of the Company's outstanding share options since their exercise of those share options would result a reduction in loss per share for the year which is regarded as anti-dilutive.

13. RETIREMENT BENEFIT COSTS

Since 1 December 2000, the Group had joined a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with rules of MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group's contribution to such scheme for the year ended 31 December 2017 amounted to HK$172,000 (2016: HK$428,000).

The Company's subsidiaries in the PRC have participated in a central pension scheme. Contributions are made by the subsidiaries to the scheme based on certain percentage of the applicable payroll costs. The Group has no obligation other than the above-mentioned contributions.

The Group's contribution to the state-sponsored retirement plan for the year ended 31 December 2017 amounted to HK$3,183,000 (2016: HK$24,360,000).

14. PROPERTY, PLANT AND EQUIPMENT

	Properties held under medium-term lease HK$'000	Water pipeline HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
For the year ended 31.12.2016									
Opening net book value	103,575	208,615	9,746	9,879	4,175	497	8,532	123,824	468,843
Exchange adjustments	(1,554)	(15,823)	(595)	(303)	(468)	—	(108)	(7,230)	(26,081)
Additions	—	—	1,274	1,536	3,421	—	—	68,738	74,969
Transfer from CIP	—	66,776	—	—	—	—	—	(66,776)	—
Disposals	—	—	(19)	(36)	(23)	—	(727)	—	(805)
Depreciation	(5,883)	(22,613)	(2,037)	(3,817)	(4,522)	(254)	(2,748)	—	(41,874)
Disposals of subsidiaries — Note 34	(4,943)	—	—	(6,258)	(1,306)	(173)	(3,218)	—	(15,898)
Closing net book value	91,195	236,955	8,369	1,001	1,277	70	1,731	118,556	459,154
At 31.12.2016									
Cost	97,950	259,048	10,019	3,087	1,679	415	2,670	118,556	493,424
Aggregate depreciation	(6,755)	(22,093)	(1,650)	(2,086)	(402)	(345)	(939)	—	(34,270)
Net book value	91,195	236,955	8,369	1,001	1,277	70	1,731	118,556	459,154

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

	Properties held under medium-term lease HK$'000	Water pipeline HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
For the year ended 31.12.2017									
Opening net book value	91,195	236,955	8,369	1,001	1,277	70	1,731	118,556	459,154
Exchange adjustments	1,132	19,468	579	20	150	–	153	6,957	28,459
Additions	–	184	558	–	610	16	456	55,199	57,023
Transfer from CIP	–	70,227	218	–	821	–	–	(71,266)	–
Transfer from investment properties — Note 16	2,202	–	–	–	–	–	–	–	2,202
Transfer to prepaid land lease premium — Note 15	–	–	–	–	–	–	–	(7,768)	(7,768)
Disposals	–	–	(8)	–	(12)	–	(5)	–	(25)
Depreciation	(6,553)	(24,372)	(2,073)	(889)	(917)	(29)	(348)	–	(35,181)
Acquisitions of subsidiaries — Note 33(a)	–	–	–	–	10	–	–	–	10
Closing net book value	87,976	302,462	7,643	132	1,939	57	1,987	101,678	503,874
At 31.12.2017									
Cost	101,724	351,600	11,434	3,200	3,046	431	4,162	101,678	577,275
Aggregate depreciation	(13,748)	(49,138)	(3,791)	(3,068)	(1,107)	(374)	(2,175)	–	(73,401)
Net book value	87,976	302,462	7,643	132	1,939	57	1,987	101,678	503,874

As at 31 December 2017, the Group's buildings and structure with a net carrying amount of approximately HK$1,270,000 (2016: HK$1,274,000) was in the process of obtaining the construction plan permits, construction commencement permits and construction completion reports. These structures have erected on land for which the relevant land use right certificates have not been obtained by the Group. Based on the legal opinion from the Group's legal advisor, who is a registered law firm in the PRC, the directors of the Group consider that the risk for the structure will be demolished is relatively low and there is no legal obstacle for the Group to obtain the relevant certificates and permits mentioned above. In accordance with the relevant regulations, the directors of the Group estimated the fine of approximately HK$70,000 (2016: HK$65,000) and had made a provision accordingly.

As at 31 December 2017, the Group's construction in progress with a net carrying amount of approximately HK$207,000 (2016: HK$840,000), and its water pipeline with a net carrying amount of approximately HK$421,000 (2016: HK$1,976,000) was in the process of obtaining the construction plan permits. Based on the legal opinion from the Group's legal advisor, who is a registered law firm in the PRC, the directors of the Group consider that the risks for the structure will be demolished or that the Group will be punished for non-compliance are relatively low and there is no legal obstacle for the Group to obtain the relevant permits mentioned above.

15. PREPAID LAND LEASE PREMIUM

The Group's interests in land lease premium represents prepaid operating lease payments and its net book value is analysed as follows:–

	2017	2016
	HK$'000	HK$'000
Outside Hong Kong, held under medium-term lease	**31,226**	22,313
Less: Current portion	**(693)**	(97)
Non-current portion	**30,533**	22,216
Representing:–		
Opening net book value	**22,313**	29,649
Transfer from property, plant and equipment — Note 14	**7,768**	—
Transfer from investment properties — Note 16	**667**	—
Disposals of subsidiaries — Note 34	**—**	(5,341)
Exchange adjustments	**1,211**	(1,201)
Amortisation of prepaid land lease premium	**(733)**	(794)
Closing net book value	**31,226**	22,313

The Group's prepaid land lease payments represent up-front payments to acquire long term interest in usage of land situated in the PRC, which are held under medium term leases.

16. INVESTMENT PROPERTIES

	HK$'000
At 1.1.2016	53,847
Increase in fair value recognised in the consolidated statement of profit or loss	4,582
Transfer from deposit paid for acquisition of investment properties	15,877
Additions	30,799
Disposals of subsidiaries — Note 34	(56,606)
Exchange adjustments	(3,679)
At 31.12.2016 and 1.1.2017	44,820
Increase in fair value recognised in the consolidated statement of profit or loss	5,343
Transfer to property, plant and equipment and prepaid land lease premium — Notes 14 and 15	(2,869)
Exchange adjustments	3,481
At 31.12.2017	**50,775**

16. INVESTMENT PROPERTIES *(continued)*

Notes :–

(a) The Group's properties interest held under operating leases to earn rentals or for long-term capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. These properties are located at the PRC and held under medium-term lease.

(b) The Group's investment properties were revalued at 31 December 2017. The valuation was carried out by an independent firm of surveyors, Graval Consulting Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. Management had discussed with the surveyors on the valuation assumptions and valuation results when the valuation was performed at the end of the reporting period.

(c) The fair value of the Group's investment properties measured at the end of the reporting period is categorised as Level 3 of fair value hierarchy as defined in HKFRS 13.

(d) Information about Level 3 fair value measurement:-

	Valuation techniques	Unobservable input	Range	Weighted average
Residential properties in PRC	Market comparison approach	Premium (discount) on quality of the buildings	-15% to 15%	-5%
Commercial properties in PRC	Income capitalisation approach	Prevailing market rents	RMB30 to RMB200 per square meter per month	RMB120 per square meter per month
		Capitalisation rates	5% to 10%	7.5%

(e) The fair value of investment properties located at the PRC was determined using market comparison approach by reference to recent sales price of comparable properties on a price per square metre basis, adjusted by quality and location of the Group's investment properties compared to the recent sales. The fair value measurement is positively correlated to risk-adjusted discount rates.

(f) The Group also applied income capitalisation approach as valuation technique. This approach is based on the capitalisation of net income with due allowance for outgoings and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation are referenced to valuers' view of recent lettings, within the subject properties and other comparable properties. The higher the capitalisation rates, the lower the fair value. The higher the prevailing market rents, the higher the fair value. The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

(g) Fair value adjustment of investment properties is recognised in the line item "Increase in fair value of investment properties" on the face of the consolidated statement of profit or loss.

17. INTANGIBLE ASSETS

	Development cost HK$'000	Computer software and technology HK$'000	Domain name HK$'000	(Note (a)) Other intangible asset HK$'000	Total HK$'000
At 1.1.2016					
Cost	9,326	6,762	2,682	352,599	371,369
Accumulated amortisation	—	(6,489)	—	(278)	(6,767)
Accumulated impairment loss	(8,305)	—	—	—	(8,305)
Net book value	1,021	273	2,682	352,321	356,297
For the year ended 31.12.2016					
Opening net book value	1,021	273	2,682	352,321	356,297
Disposals of subsidiaries — Note 34	(955)	(113)	(2,682)	—	(3,750)
Additions	—	48	—	85,923	85,971
Amortisation	—	(198)	—	(18,943)	(19,141)
Disposals	—	—	—	(1,379)	(1,379)
Exchange adjustments	(66)	(10)	—	(19,810)	(19,886)
Closing net book value	—	—	—	398,112	398,112
At 31.12.2016					
Cost	—	—	—	417,998	417,998
Accumulated amortisation	—	—	—	(18,569)	(18,569)
Accumulated impairment loss	—	—	—	(1,317)	(1,317)
Net book value	—	—	—	398,112	398,112
For the year ended 31.12.2017					
Opening net book value	**—**	**—**	**—**	**398,112**	**398,112**
Additions	**—**	**—**	**—**	**6,518**	**6,518**
Amortisation	**—**	**—**	**—**	**(16,330)**	**(16,330)**
Exchange adjustments	**—**	**—**	**—**	**23,042**	**23,042**
Closing net book value	**—**	**—**	**—**	**411,342**	**411,342**
At 31.12.2017					
Cost	**—**	**—**	**—**	**449,182**	**449,182**
Accumulated amortisation	**—**	**—**	**—**	**(36,423)**	**(36,423)**
Accumulated impairment loss	**—**	**—**	**—**	**(1,417)**	**(1,417)**
Net book value	**—**	**—**	**—**	**411,342**	**411,342**

17. INTANGIBLE ASSETS *(continued)*

Notes : –

(a) Pursuant to a concession agreement between a subsidiary, Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Water") and a relevant authority in the PRC dated 21 November 2006, Taihe Water obtained the right to operate certain water supply plants located at Qingyuan City of Guangdong Province in the PRC for a period of 20 years on a BOT basis. Taihe Water is entitled to use all the property, plant and equipment of the water supply plants.

(b) As at 31 December 2017, land use right held by the Group under service concession arrangement with a net carrying amount of RMB4,133,000 (equivalent to approximately HK$4,963,000) (2016: RMB4,244,000 (equivalent to approximately HK$4,739,000)) was pledged to secure the Group's bank and other borrowings (note 29).

18. GOODWILL

	HK$'000
Cost:–	
At 1.1.2016	167,412
Disposals of subsidiaries — Note 34	(77,122)
At 31.12.2016 and 1.1.2017	90,290
Acquisitions of subsidiaries — Note 33(a)	8,747
At 31.12.2017	**99,037**
Impairment loss:–	
At 1.1.2016	25
Disposals of subsidiaries — Note 34	(25)
At 31.12.2016, 1.1.2017 and 31.12.2017	**—**
Net book value:–	
At 31.12.2017	**99,037**
At 31.12.2016	90,290

18. GOODWILL *(continued)*

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:–

	2017	2016
	HK$'000	HK$'000
Water supply services		
– Qinghui Group	**87,908**	87,908
– Taihe Water	**2,382**	2,382
Financial services	**8,747**	–
	99,037	90,290

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For Qinghui Group under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period (2016: five-year period). A discount factor at a rate of 15.51% (2016: 15.40%) was applied in the value-in-use model. Cash flows beyond the five-year period are extrapolated using 3% (2016: 3%) average growth rate, benchmarked against GDP and inflation rate in China.

For Taihe Water under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the remaining concession periods of 9 years (2016: 10 years). As disclosed in note 17, Taihe Water was granted right by the relevant authority in the PRC to use and operate certain water supply plants located at Qingyuan City for the period of 20 years from 2006 to 2026, pursuant to a concession agreement on a BOT basis. Taking into account the utility nature of water supply business, the oligopolised market of water supply in Qingyuan City, the robust demand of water exceeding supply and the stable city growth in Guangdong Province, the management considers a projection for the entire nine years of the remaining concession period is appropriate. No terminal value was attributed to Taihe Water CGU beyond the nine-year period. A discount factor at a rate of 18.15% (2016: 16.33%) was applied in the value-in-use model.

For financial services segment, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. A discount factor at a rate of 14.21% was applied in the value-in-use model. Cash flows beyond the five-year period are extrapolated using 3% average growth rate, benchmarked against GDP and inflation rate in Hong Kong.

Based on the results of the impairment test of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the goodwill as at 31 December 2017 (2016: Nil).

19. INTEREST IN AN ASSOCIATE

	2017 **HK$'000**	2016 HK$'000
Cost of unlisted investment in an associate	—	—
Share of post-acquisition losses and reserves	—	—
	—	—

Shanghai Renda Commercial Factoring Company Limited is a strategic business partner of the Group.

The associate is accounted for using the equity method in the consolidated financial statements.

The associate was newly incorporated on 23 September 2015 and disposed through the disposal of IPSH (Note 34) on 23 December 2016.

Name of companies	**Place of establishment and business**	**Particulars of registered capital**	**Attributable equity interest held by the Company indirectly**	**Group's effective interest**	**Principal activities**
Shanghai Renda Commercial Factoring Company Limited	People's Republic of China	RMB50,000,000	49.5%	25.245%	Provision of factoring services

The summarised financial information in respect of Shanghai Renda Commercial Factoring Company Limited are set out below:–

	For the period from 1.1.2016 to 23.12.2016 HK$'000
Revenue	3,915
Profit for the period	164
Other comprehensive loss for the period	(3,838)
Total comprehensive loss for the period	(3,674)
Group's share of results of an associate for the period included in discontinued operations for the year ended 31 December 2016	41

20. DEPOSIT PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2017, the Group paid a deposit of approximately HK$14,249,000 (2016: HK$13,244,000) to acquire property, plant and equipment. Capital commitment of such acquisition is disclosed in note 36 to the consolidated financial statements.

21. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**2,276**	587
Finished goods	**2,437**	2,019
	4,713	2,606

22. DEBTORS

	2017	2016
	HK$'000	HK$'000
Trade debtors	**27,682**	24,004
Less: impairment loss – Note 22(c)	**(1,377)**	(850)
	26,305	23,154

Notes:–

(a) The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with debtors, credit evaluations of customers are performed periodically.

22. DEBTORS *(continued)*

Notes:- *(continued)*

(b) An aging analysis of debtors, based on invoice date and net of impairment loss on debtors, is set out below:–

	2017 **HK$'000**	2016 HK$'000
0 – 6 months	**25,150**	22,937
7 – 12 months	**180**	51
1 – 2 years	**975**	166
	26,305	23,154
Neither past due nor impaired	**25,330**	22,988
Past due but not impaired	**975**	166
	26,305	23,154

Debtors that were neither past due nor impaired relate to tenants and a wide range of customers for water supply service for whom there were no recent history of default.

As at 31 December 2017, debtors that were past due but not impaired included an amount of HK$975,000 which was related to numbers of independent customers of water supply service which had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(c) The movement in the impairment loss on debtors during the year is as follows:–

	2017 **HK$'000**	2016 HK$'000
At 1 January	**850**	2,559
Impairment loss recognised	**504**	70
Disposals of subsidiaries	**—**	(1,578)
Exchange adjustments	**23**	(201)
At 31 December	**1,377**	850

(d) As at 31 December 2017, the receivables with a carrying amount of RMB21,881,000 (equivalent to approximately HK$26,275,000) (2016: RMB20,723,000 (equivalent to approximately HK$23,139,000)) were pledged to secure bank loans granted to the Group (note 29).

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Utilities and deposits	**2,539**	2,696
Prepayments	**1,292**	1,115
Interest receivable	**3,532**	1,737
Other receivables	**3,384**	1,601
	10,747	7,149
Less: impairment loss on other receivables – Note 23(a)	**(45)**	(125)
	10,702	7,024

Note:–

(a) The movement in the impairment loss on other receivables during the year is as follows:–

	2017 HK$'000	2016 HK$'000
At 1 January	**125**	1,201
(Reversal of)/impairment loss recognised	**(56)**	673
Written off	**(29)**	(428)
Disposals of subsidiaries	**–**	(1,242)
Exchange adjustments	**5**	(79)
At 31 December	**45**	125

24. CASH AND BANK BALANCES

As at 31 December 2017, cash and bank balances of the Group denominated in Renminbi amounted to HK$134,871,000 (2016: HK$218,928,000). Renminbi is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

25. TRADE PAYABLES

	2017 HK$'000	2016 HK$'000
An aging analysis of trade payables based on invoice date is set out below:–		
0 – 12 months	**33,154**	2,433

26. PAYABLE TO MERCHANTS

	2017 HK$'000	2016 HK$'000
An aging analysis of payable to merchants based on invoice date is set out below:–		
0 – 12 months	**—**	—
Over one year	**3,017**	3,008
	3,017	3,008

27. DEPOSITS RECEIVED, SUNDRY CREDITORS AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Deposits received and receipts in advance	**20,485**	11,440
Accruals	**10,030**	11,485
Sundry creditors	**53,667**	52,908
Construction fee payable	**66,534**	95,967
Other tax payable	**26,529**	21,846
	177,245	193,646

28. AMOUNTS DUE TO RELATED COMPANIES

The amounts are interest-free, unsecured and repayable within one year.

29. BANK AND OTHER BORROWINGS

As at 31 December 2017, the bank and other borrowings were analysed as follows :–

	Note	2017 HK$'000	2016 HK$'000
Bank loans, secured	(a)	**706,822**	706,595
Government loans, unsecured		**3,030**	3,776
		709,852	710,371
Due for payment :–			
— Within one year		**344,968**	312,195
— Within two to five years		**101,093**	126,410
— Over five years		**263,791**	271,766
		709,852	710,371

Note:–

(a) The Group had the following banking facilities :–

	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Total banking facilities granted	**1,200,800**	1,172,430
Less: banking facilities utilised by the Group	**(706,822)**	(706,595)
Unutilised banking facilities	**493,978**	465,835

29. BANK AND OTHER BORROWINGS *(continued)*

Note:– *(continued)*

(a) The Group had the following banking facilities :– *(continued)*

As at 31 December 2017, these banking facilities were secured by :–

i. charges over a time deposit amounting to RMB242,497,000 (equivalent to approximately HK$291,239,000);

ii. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB4,133,000 (equivalent to approximately HK$4,963,000) (note 17);

iii. pledge of trade receivables with a carrying amount of RMB21,881,000 (equivalent to approximately HK$26,275,000) (note 22);

iv. pledge of 100% equity interest in Qingyuan Water Supply Development Company Limited;

v. pledge of 100% equity interest in Qingyuan Qingxin District Taihe Water Company Limited;

vi. guarantee by Qinghui Properties Limited and Qingyuan Qingxin District Huike Properties Company Limited, both being subsidiaries of the Group;

vii. guarantee by Dongguan New Century Science and Education Development Limited, Ms. Zhu Fenglian and her spouse; and

viii. guarantee by the non-controlling shareholders of subsidiaries.

As at 31 December 2016, these banking facilities were secured by :–

i. charges over a time deposit amounting to RMB235,420,000 (equivalent to approximately HK$262,898,000);

ii. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB4,244,000 (equivalent to approximately HK$4,739,000) (note 17);

iii. pledge of trade receivables under service concession arrangement with a carrying amount of RMB20,723,000 (equivalent to approximately HK$23,139,000) (note 22);

iv. pledge of 100% equity interest in Qingyuan Water Supply Development Company Limited;

v. pledge of 100% equity interest in Qingyuan Qingxin District Taihe Water Company Limited;

vi. guarantee by Dongguan Xinghongcheng Enterprise Management Company Limited and Qingyuan Qingxin District Huike Properties Company Limited, both being subsidiaries of the Group;

vii. guarantee by Dongguan New Century Science and Education Development Limited, Ms. Zhu Fenglian and her spouse; and

viii. guarantee by the non-controlling shareholder of a subsidiary.

30. SHARE CAPITAL

(a) Share capital

	The Group and the Company	
	Number of shares	HK$'000
Ordinary share of HK$0.01 each		
Authorised:–		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	5,000,000,000	50,000
Issued and fully paid:–		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	**2,120,448,858**	**21,205**

(b) Capital management

The Group's equity capital management objectives are to safeguard the Group's ability to continue as a going concern and to provide an adequate return to shareholders commensurately with the level of risk. To meet these objectives, the Group manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to shareholders, issuing new equity shares, and raising or repaying debts as appropriate.

The Group's equity capital management strategy was to maintain a reasonable proportion in total liabilities and total assets. The Group monitors equity capital on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratios at 31 December 2017 and at 31 December 2016 were as follows:–

	2017	2016
	HK$'000	HK$'000
Total liabilities	**966,286**	1,002,647
Total assets	**1,754,598**	1,761,250
Gearing ratio	**55.07%**	56.93%

31. SHARE OPTIONS

Pursuant to the Company transferred the listing of its share from GEM to the Main Board of the Stock Exchange on 22 June 2010, the Company adopted a new share option scheme which is compliance with the Listing Rules at the Company's extraordinary general meeting held on 12 August 2010 ("New Share Option Scheme"). The three share option schemes adopted on 12 October 2001 ("GEM Share Option Schemes") have been terminated and no further options under such schemes have been granted thereunder upon the adoption of the New Share Option Scheme. The outstanding options granted under the GEM Share Option Schemes shall continue to be subject to the provision of the GEM Share Option Schemes.

The purpose of the New Share Option Scheme is to enable the Company to grant options to participants an incentive or rewards for their contributions to the Group.

The New Share Option Scheme was adopted for a period of ten years commencing from 12 August 2010 and will remain in force until 11 August 2020, after which period no further options will be offered or granted but the provisions of the scheme shall remain in full force and effect in all other respects with regard to options granted during the life of the scheme.

The subscription price of the New Share Option Scheme shall be determined by the Board in its absolute discretion, but in any event shall not be less than the higher of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the share of the Company.

31. SHARE OPTIONS *(continued)*

(a) A summary of the movements of share options granted under the New Share Option Scheme during each of the two years ended 31 December 2017 is as follows:–

			Number of share options		
Date of grant	Exercise period	Exercise price	Outstanding at 1 January 2016	Lapsed during the year	Outstanding at 31 December 2016, 1 January 2017 and 31 December 2017
25 November 2013	25 November 2013 to 11 August 2020	HK$0.465	70,000,000	(10,000,000)	60,000,000

(b) The number and weighted average of exercise prices of share options are as follows:–

	2017		2016	
	Weighted average of exercise price HK$	**Number of options**	Weighted average of exercise price HK$	Number of options
Outstanding at the beginning of the year	**0.465**	**60,000,000**	0.465	70,000,000
Lapsed during the year	**—**	**—**	0.465	(10,000,000)
Outstanding at the end of year	**0.465**	**60,000,000**	0.465	60,000,000
Exercisable at the end of year	**0.465**	**60,000,000**	0.465	60,000,000

There were 10,000,000 share options lapsed during the year ended 31 December 2016.

The options outstanding at 31 December 2017 had an exercise price of HK$0.465 (2016: HK$0.465) and a weighted average remaining contractual life of 2.6 years (2016: 3.6 years).

31. SHARE OPTIONS *(continued)*

(c) Fair value of share options granted

120,000,000 share options under the New Share Option Scheme were granted during the year ended 31 December 2013.

Fair value of share options granted during the year ended 31 December 2013 was as follows:–

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

Fair value at measurement date	HK$0.03997
Share price	HK$0.460
Exercise price	HK$0.465
Expected volatility	65.89%
Expected dividend yield	1.41%
Risk-free interest rate	1.44%

The expected volatility is based on the historic volatility (calculated based on the expected life of the share options), adjusted for any expected changes to future volatility due to public available information. Expected dividends are based on historical dividends. Changes in subjective input assumptions could materially affect the fair value estimate. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants. However, the management has taken into consideration of historical staff turnover pattern for the estimation of expected option life.

32. RESERVES

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 premium HK$'000	Capital redemption reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1.1.2016	520,908	481	4,396	(98,116)	427,669
Lapse of share options granted in prior years	—	—	(399)	399	—
Total comprehensive loss for the year	—	—	—	(23,497)	(23,497)
At 31.12.2016 and 1.1.2017	520,908	481	3,997	(121,214)	404,172
Total comprehensive loss for the year	—	—	—	(15,033)	(15,033)
At 31.12.2017	**520,908**	**481**	**3,997**	**(136,247)**	**389,139**

Notes:–

(i) The share premium of the Company includes (i) shares issued at premium and (ii) the difference between the nominal value of the ordinary shares issued by the Company and the net asset values of the subsidiaries at the date they were acquired through an exchange of shares pursuant to the reorganisation completed in 2001. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the distributable reserves of the Company.

(iii) As at 31 December 2017, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK$384,661,000 (2016: HK$399,694,000) subject to the restrictions as stated above.

(iv) The special reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the share capital of a subsidiary acquired pursuant to the reorganisation completed in 2001.

(v) The subsidiary established in the PRC was required by PRC Company Law to appropriate 10% of its statutory after-tax profit to a statutory reserve fund until the balance of the fund reached 50% of share capital and thereafter any further appropriation was optional. The statutory reserve fund could be utilised to offset prior years' losses or to increase share capital on the condition that the statutory reserve fund must be maintained at a maximum of 25% of the share capital after such issuance. During the year, the Board of Directors of the subsidiary resolved to appropriate HK$6,814,000 (2016: HK$5,478,000) from retained profits to statutory reserve fund.

33. ACQUISITIONS OF SUBSIDIARIES

(a) On 14 June 2017, for the purpose of engaging in the financial services business, Universal Technologies Capital Holdings Limited ("UTCHL"), a direct wholly-owned subsidiary of the Group, acquired 100% equity interests in Hooray Asset Management Limited ("Hooray"), a company incorporated in Hong Kong, at a cash consideration of HK$9,000,000.

The fair value of the identifiable assets and liabilities of the subsidiary acquired as at the date of acquisition is as follows:

	HK$'000
Property, plant and equipment – Note 14	10
Prepayment	16
Cash and bank balances	227
Net assets	253
Goodwill arising on acquisition	
Consideration for acquisition	9,000
Less: Fair value of identifiable net assets acquired	(253)
	8,747
Net cash outflow arising on acquisition	
Cash consideration paid	(9,000)
Less: Cash and bank balances acquired	227
	(8,773)

Acquisition-related costs amounting to HK$140,000 have been recognised as an expense in the current year, within the "general and administrative expenses" line item in the consolidated statement of profit or loss.

The Group recognised a goodwill of HK$8,747,000 arising from acquisition of Hooray.

The newly acquired business did not contribute any revenue to the Group but resulted in a loss of HK$464,000 to the Group for the period between the date of acquisition and the end of reporting period.

If the acquisition had been completed on 1 January 2017, total Group's revenue for the year would have been HK$248,536,000 and profit for the year would have been HK$24,220,000. The proforma financial information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been completed on 1 January 2017 nor is intended to be a projection of future results.

33. ACQUISITIONS OF SUBSIDIARIES *(continued)*

(b) On 14 February 2016, IPS E-Commerce Hongkong Limited, a non-wholly owned subsidiary with 34.43% effective interest held by the Group, acquired 100% equity interests in H & R International Investment Limited ("HRI"), a company incorporated in Hong Kong, at a cash consideration of HK$2. The Group holds 34.43% effective interest in HRI indirectly.

The fair value of the identifiable assets and liabilities of the subsidiary acquired as at its date of acquisition was as follows:–

	HK$'000
Deposits paid for acquisition of investment properties	7,670
Other receivables	1,899
Cash and bank balances	103
Other payables and accruals	(9,200)
	472
Non-controlling interests	(310)
Net assets	162
Gain on bargain purchase arising on acquisition	
Consideration for acquisition	—
Less: Fair value of identifiable net assets acquired	(162)
	(162)
Net cash inflow arising on acquisition	
Cash consideration paid	—
Less: Cash and cash equivalents acquired	103
	103

The Group recognised gain on bargain purchase of HK$162,000 because the fair value of net assets acquired exceeded purchase consideration.

The newly acquired business contributed a revenue of HK$225,000 to the Group and contributed a loss of HK$43,000 to the Group for the period between the date of acquisition and 31 December 2016.

If the acquisition had been completed on 1 January 2016, total Group's revenue for the year would have been HK$137,676,000, and loss for the year would have been HK$22,975,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016 nor is intended to be a projection of future results.

On 23 December 2016, the Group disposed of its entire equity interest of HRI which is one of the subsidiaries in IPSH (Note 34).

33. ACQUISITIONS OF SUBSIDIARIES *(continued)*

(c) On 14 February 2016, IPS E-Commerce Hongkong Limited, a non-wholly owned subsidiary with 34.43% effective interest held by the Group, acquired 100% equity interests in Speed International Technology Company Limited ("Speed"), a company incorporated in Hong Kong, at a cash consideration of HK$2. The Group holds 34.43% effective interest in Speed indirectly.

The fair value of the identifiable assets and liabilities of the subsidiary acquired as at its date of acquisition was as follows:–

	HK$'000
Deposits paid for acquisition of investment properties	8,207
Other receivables	5
Other payables and accruals	(8,202)
	10
Non-controlling interests	(6)
Net assets	4
Gain on bargain purchase arising on acquisition	
Consideration for acquisition	—
Less: Fair value of identifiable net assets acquired	(4)
	(4)
Net cash inflow arising on acquisition	
Cash consideration paid	—
Less: Cash and cash equivalents acquired	—
	—

The Group recognised gain on bargain purchase of HK$4,000 because the fair value of net assets acquired exceeded purchase consideration.

The newly acquired business contributed revenue of HK$276,000 to the Group and contributed a loss of HK$4,000 to the Group for the period between the date of acquisition and 31 December 2016.

If the acquisition had been completed on 1 January 2016, total Group's revenue for the year would have been HK$137,676,000, and loss for the year would have been HK$22,975,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016 nor is intended to be a projection of future results.

On 23 December 2016, the Group disposed of its entire equity interest of Speed which is one of the subsidiaries in IPSH (Note 34).

34. DISPOSAL OF INTERESTS IN SUBSIDIARIES

On 23 December 2016, the Group disposed of the entire equity interests of International Payment Solutions Holdings Limited ("IPSH") at a consideration of HK$158,000,000.

	HK$'000
Net assets disposed of:–	
Property, plant and equipment — Note 14	15,898
Prepaid land lease premium — Note 15	5,341
Investment properties — Note 16	56,606
Intangible assets — Note 17	3,750
Goodwill — Note 18	77,097
Interest in an associate	27,725
Deferred tax assets — Note 10(a)	189
Deposits paid for acquisition of property, plant and equipment	21,871
Inventories	768
Debtors	320,376
Deposits, prepayments and other receivables	258,069
Financial assets at fair value through profit or loss	604
Cash and bank balances	460,467
Bank loans	(65,506)
Payable to merchants	(776,388)
Deposits received, sundry creditors and accruals	(149,942)
Tax payable	(6,079)
Deferred tax liabilities — Note 10(a)	(527)
Net assets disposed of	250,319
Less: Non-controlling interests	(160,428)
	89,891

34. DISPOSAL OF INTERESTS IN SUBSIDIARIES *(continued)*

	HK$'000
Gain on disposals of subsidiaries	
Consideration received	158,000
Less: Net assets disposed of	(89,891)
Less: Shareholder loans	(47,407)
Less: Exchange reserve realised on disposal	(6,297)
Less: Direct expenses in relation to the disposal	(2,929)
Less: Tax effect	(9,476)
	2,000
Net cash outflow arising on disposal of subsidiary	
Cash consideration received	158,000
Less: Cash and bank balances disposed of	(460,467)
	(302,467)

35. OPERATING LEASE ARRANGEMENTS

As lessor

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:–

	2017	2016
	HK$'000	HK$'000
Within one year	**1,192**	842
After one year but within five years	**625**	875
Over five years	**38**	—
	1,855	1,717

The Group leases its investment properties under operating leases. The leases were negotiated for terms ranging from one to ten years.

As lessee

As at 31 December 2017, the Group had outstanding 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	**2,908**	2,229
After one year but within five years	**5,238**	59
	8,146	2,288

Operating lease payments represent rentals payable by the Group for the use of office premises, staff quarters and car parking spaces. Leases are negotiated for a term ranging from one to five years with fixed monthly rentals.

36. CAPITAL COMMITMENTS

Capital expenditure contracted but not provided for is as follows:–

	2017	2016
	HK$'000	HK$'000
Property, plant and equipment	**71,799**	85,854
Other intangible assets	**87,746**	79,840
	159,545	165,694

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS

The Group's policy is to prudently manage daily operations and invest surplus funds managed by the Group in a manner which satisfy liquidity requirements, safeguard financial assets, manage risks while optimising the returns.

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

(a) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group manages credit risk by setting up credit control policy and periodic evaluation of credit performance of the other parties, measured by the extent of past due or default.

In respect of debtors arising from trading business, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and obtaining information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors are due with 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Carrying amounts of financial assets at 31 December 2017, which represented the amounts of maximum exposure to credit risk, were as follows:–

	2017 **HK$'000**	2016 HK$'000
Debtors	**26,305**	23,154
Deposits and other receivables	**9,410**	5,909
Fixed deposits	**80,716**	34,643
Pledged time deposit	**291,239**	262,898
Cash and bank balances	**230,420**	402,992
	638,090	729,596

The Directors are satisfied with the credit quality of financial assets.

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS *(continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group to meet its financial obligations, measured by the gearing ratio.

Maturities of the non-derivative financial liabilities of the Group at 31 December 2017 were as follows:–

	2017				
	Carrying amount HK$'000	**Total contractual undiscounted cash flows HK$'000**	**Less than 1 year or on demand HK$'000**	**In 2 to 5 years HK$'000**	**Over 5 years HK$'000**
Total amounts of contractual undiscounted obligations:–					
Bank and other borrowings	**709,852**	**848,404**	**375,736**	**167,805**	**304,863**
Trade payables	**33,154**	**33,154**	**33,154**	**—**	**—**
Payable to merchants	**3,017**	**3,017**	**3,017**	**—**	**—**
Sundry creditors and accruals	**157,425**	**157,425**	**157,425**	**—**	**—**
Amounts due to related companies	**39,383**	**39,383**	**39,383**	**—**	**—**
	942,831	**1,081,383**	**608,715**	**167,805**	**304,863**

	2016				
	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Less than 1 year or on demand HK$'000	In 2 to 5 years HK$'000	Over 5 years HK$'000
Total amounts of contractual undiscounted obligations:–					
Bank and other borrowings	710,371	856,866	339,488	193,121	324,257
Trade payables	2,433	2,433	2,433	—	—
Payable to merchants	3,008	3,008	3,008	—	—
Sundry creditors and accruals	182,876	182,876	182,876	—	—
Amounts due to related companies	76,499	76,499	76,499	—	—
	975,187	1,121,682	604,304	193,121	324,257

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS *(continued)*

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Carrying amounts of financial assets and financial liabilities at 31 December 2017 exposed to currency risk were as follows:-

	2017	2016
	HK$'000	HK$'000
Financial assets denominated in foreign currencies:-		
Deposits and other receivables	**3,662**	1,903
Fixed deposits	**—**	7,137
Pledged time deposit	**291,239**	262,898
Cash and bank balances	**19,621**	1,368
	314,522	273,306
Financial liabilities denominated in foreign currencies:-		
Payable to merchants	**(133)**	(124)
	(133)	(124)
Net financial assets exposed to currency risk	**314,389**	273,182

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS *(continued)*

(c) Currency risk *(continued)*

The Group's net financial assets exposed to currency risk were primarily denominated in the following currencies:–

	2017 **HK$'000**	2016 HK$'000
Australian dollars	**12,201**	—
United States dollars	**1,516**	1,505
Renminbi	**300,672**	271,677
	314,389	273,182

The Group operates in Hong Kong, the PRC and Australia and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Renminbi and Australian dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. At present, the Group does not intend to seek to hedge its exposure to foreign exchange risk profile. However, the currency risk of the Group is closely monitored by the management to ensure that the net exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

Since Hong Kong dollars is pegged to United States dollars, material fluctuations in the exchange rates of Hong Kong dollars against United States dollars are remote. Should Hong Kong dollars at 31 December 2017 devalue by 10% against all foreign currencies except United States dollars, the carrying amount of the net financial assets of the Group exposed to currency risk at 31 December 2017 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates" would be increased, and hence the equity at 31 December 2017 would be increased by HK$31,287,000 (2016: HK$27,168,000); and profit for the year ended 31 December 2017 would be increased by HK$31,287,000 (2016: loss for the year would be decreased by HK$27,168,000).

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS *(continued)*

(d) Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument traded in the market will fluctuate because of changes in market prices. The Group manages market prices risk, when it is considered significant, by entering into appropriate derivatives contracts.

The Group has no significant exposure to market price risk.

(e) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS *(continued)*

(e) Interest rate risk *(continued)*

The following table details the fixed/variable rate financial assets/liabilities in which the Group is exposed to interest rate risk. The Group does not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group is closely monitored by the management and may enter into appropriate swap contracts, when it is considered significant and cost-effective, to manage the interest rate risk.

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 31 December 2017 and 2016:–

	At 31 December 2017		At 31 December 2016	
	Effective interest rate		Effective interest rate	
	%	**HK$'000**	%	HK$'000
Fixed rate financial assets				
Fixed deposits	**1.0%–1.35%**	**80,716**	0.5%–2.2%	34,643
Pledged time deposit	**4.35%**	**291,239**	2.4%	262,898
Fixed rate financial liabilities				
Bank and other borrowings	**5.66%**	**(287,092)**	2.9%	(262,870)
Variable rate financial assets				
Bank balances	**0.01%–0.35%**	**146,760**	0.01%–0.35%	227,101
Variable rate financial liabilities				
Bank and other borrowings	**3.3%–5.39%**	**(422,760)**	3.3%–5.39%	(447,501)
		(191,137)		(185,729)

It is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, the Group's profit for the year ended 31 December 2017 would be decreased (2016: loss for the year would be increased) and respective accumulated losses would be increased (2016: increased) by approximately HK$2,055,000 (2016: HK$1,662,000).

The sensitivity analysis above has been determined based on the exposure to interest rate for both derivatives and non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of asset and liability outstanding at the end of reporting period was outstanding for the whole year. 100 basis points increase are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonable possible change in interest rates.

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS *(continued)*

(f) Fair values

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2017 and 2016.

38. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) On 20 September 2016, UTCHL, a direct wholly-owned subsidiary of the Company, and Ever City Industrial Development Limited ("Ever City") entered into the acquisition agreement (the "Acquisition Agreement"), pursuant to which UTCHL conditionally agreed to acquire from Ever City, and Ever City conditionally agreed to sell, the entire issued share capital of Hooray for a total cash consideration of HK$9,000,000. Ms. Zhu (an executive Director and a substantial shareholder of the Company) is a director and deemed to be the controller of Ever City. In addition, Ever City was a substantial shareholder of the Company interested in, directly and indirectly through its subsidiary, a total of 520,380,000 shares, representing 24.54% of the issued share capital of the Company as at the date of the Acquisition Agreement. Accordingly, Ever City is a connected person of the Company and the proposed acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The proposed acquisition is subject to announcement and reporting requirements but exempt from the circular and independent shareholders' approval requirements. The acquisition was completed on 14 June 2017.

(b) Apart from the transaction as disclosed in notes 28 and 29 to the financial statements, the Group had other material transaction with its related party during the year as following:–

Particulars	Relationship	**2017 HK$'000**	2016 HK$'000
Rental income	Common shareholder	**611**	582
	Related party	**956**	486
Water testing service income	Related party	**695**	—
Water supply related installation and maintenance income	Related party	**2,922**	—

38. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management compensation

	2017 HK$'000	2016 HK$'000
Fees for key management personnel	**600**	577
Salaries, allowances and other benefits in kind	**8,150**	11,574
Pension scheme contributions	**78**	333
	8,828	12,484

39. CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no contingent liabilities.

40. RECONCILIATION OF LIABILITIES AND RELATED ASSETS ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities and related assets arising 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 statement of cash flows as cash flows from financing activities.

	Pledged time deposit HK$'000	Bank and other borrowings HK$'000	Total HK$'000
At 1 January 2017	(262,898)	710,371	**447,473**
Changes from financing cash flows:			
Increase in pledged time deposit	(284,643)	—	**(284,643)**
Release of pledged time deposit	262,898	—	**262,898**
Proceeds from new bank loans	—	272,659	**272,659**
Interest paid	—	(34,228)	**(34,228)**
Repayment of bank loans	—	(336,703)	**(336,703)**
Total changes from financing cash flows	(284,643)	612,099	**327,456**
Exchange adjustments	—	65,340	**65,340**
Other changes:			
Unrealised exchange gain	(6,596)	—	**(6,596)**
Interest expenses	—	26,440	**26,440**
Capitalised borrowing costs	—	5,973	**5,973**
At 31 December 2017	(291,239)	709,852	**418,613**

41. SEGMENT REPORTING

The chief operating decision-maker has been identified as the key management. This key management reviews the Group's internal reporting in order to assess performance and allocate resources.

The Group has presented the following two reportable segments.

(a) Water supply and related services

This segment engaged in supply of tap water to various districts of Qingyuan City, Guangdong Province. The water supply business currently operates three water treatment plants, which source raw water from local river sources. All the water treatment plants have obtained licenses and approvals from the local government to source raw water from the local river sources.

(b) Properties investment and development

This segment engaged in development, leasing and management of land, commercial and residential properties. Currently the Group's activities in this regard are carried out in the PRC and Australia.

The payment solutions, system integration and technical platform services of the Group were regarded as discontinued operations (Note 9).

Others include newly acquired financial services business in Hong Kong, supporting units of Hong Kong operation and the net result of other subsidiaries in Hong Kong and overseas. These operating segments have not been aggregated to form a reportable segment.

The key management assesses the performance of the segments based on the results, assets and liabilities attributable to each reportable segment on the following basis:–

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 amortisation of assets attributable to those segments.

Segment assets and liabilities excluded deferred tax assets, deferred tax liabilities and other corporate assets and liabilities.

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as including investment income. To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments such as share of results of an associate.

41. SEGMENT REPORTING *(continued)*

(a) Segments results, assets and liabilities

The following tables present the information for the Group's reporting segments:–

	Continuing operations								Discontinued operations			
	Reportable Segments											
	Water supply and related services		Properties investment and development		Others		Total		Payment solutions and related services, system intregrating and technical platform services		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000
Reportable segment revenue												
Revenue from external customers	246,503	304,918	2,033	1,753	—	—	248,536	306,671	—	137,676	248,536	444,347
Other revenue	1,397	1,174	239	129	9,358	7,690	10,994	8,993	—	43,437	10,994	52,430
Total revenue	247,900	306,092	2,272	1,882	9,358	7,690	259,530	315,664	—	181,113	259,530	496,777
Reportable segment profit/(loss)	69,094	100,378	(3,401)	(5,192)	(14,445)	(43,865)	51,248	51,321	—	(25,734)	51,248	25,587
Interest on bank deposits											10,755	15,121
Government subsidy											239	398
Dividend income											—	16
Profit from operations											62,242	41,122
Gain on bargain purchase											—	166
Increase in fair value of investment properties											5,343	4,582
Impairment loss on debtors	(504)	(33)	—	—	—	—	(504)	(33)	—	(37)	(504)	(70)
Reversal of/(impairment loss) on other receivables	56	(100)	—	—	—	(30)	56	(130)	—	(543)	56	(673)
Loss on disposal of intangible assets	—	(1,333)	—	—	—	—	—	(1,333)	—	—	—	(1,333)
Gain on disposals of subsidiaries											—	2,000
Share of results of an associate											—	41
Finance costs											(27,235)	(26,746)
Profit before income tax											39,902	19,089
Income tax expense											(15,326)	(23,789)
Profit/(loss) for the year											24,576	(4,700)
Attributable to:												
— Shareholders of the Company											2,660	(25,171)
— Non-controlling interests											21,916	20,471
											24,576	(4,700)
Depreciation for the year	33,125	31,127	1,097	958	959	1,222	35,181	33,307	—	8,567	35,181	41,874
Amortisation	16,681	19,253	382	312	—	—	17,063	19,565	—	370	17,063	19,935
Capital expenditure incurred during the year	63,488	156,285	—	7	53	33	63,541	156,325	—	35,414	63,541	191,739
Reportable segment assets	1,164,464	1,191,277	100,096	75,265	490,038	494,708	1,754,598	1,761,250	—	—	1,754,598	1,761,250
Unallocated assets											—	—
Total assets											1,754,598	1,761,250
Reportable segment liabilities	630,470	637,757	288,380	265,713	43,801	82,246	962,651	985,716	—	—	962,651	985,716
Unallocated liabilities											70,386	82,316
Total liabilities											1,033,037	1,068,032

There was no revenue arising from transactions with any customers which was individually more than 10 percent of the Group's revenue in both years.

41. SEGMENT REPORTING *(continued)*

(b) Geographical information

	PRC		Hong Kong/overseas		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue						
Continuing operations						
Revenue from external customers	**248,536**	306,671	**—**	—	**248,536**	306,671
Other revenue	**1,668**	1,315	**9,326**	7,678	**10,994**	8,993
Discontinued operations						
Revenue from external customers	**—**	136,087	**—**	1,589	**—**	137,676
Other revenue	**—**	43,437	**—**	—	**—**	43,437
Total revenue	**250,204**	487,510	**9,326**	9,267	**259,530**	496,777
Non-current assets						
Continuing operations	**1,095,908**	978,736	**13,902**	49,100	**1,109,810**	1,027,836
Discontinued operations	**—**	—	**—**	—	**—**	—
Total non-current assets	**1,095,908**	978,736	**13,902**	49,100	**1,109,810**	1,027,836

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (excluding deferred tax assets) is based on the physical location of the assets, in the case of property, plant and equipment, investment properties and prepaid land lease premium, the location of the operation to which they are allocated; in the case of intangible assets and goodwill, and the location of operation; in the case of deposit paid for acquisition of property, plant and equipment.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**506**	1,243
Interests in subsidiaries		**296,814**	573,322
		297,320	574,565
CURRENT ASSETS			
Deposits, prepayments and other receivables		**5,103**	1,358
Fixed deposits		**62,062**	24,505
Pledged time deposit		**291,239**	—
Cash and bank balances		**94,270**	175,806
		452,674	201,669
DEDUCT:–			
CURRENT LIABILITIES			
Sundry creditors and accruals		**2,746**	4,447
Amounts due to subsidiaries		**336,904**	346,410
		339,650	350,857
NET CURRENT ASSETS/(LIABILITIES)		**113,024**	(149,188)
NET ASSETS		**410,344**	425,377
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	30(a)	**21,205**	21,205
Reserves	32	**389,139**	404,172
TOTAL EQUITY		**410,344**	425,377

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The details of the principal subsidiaries at 31 December 2017 are as follows:-

Name of company	Place of incorporation/establishment and operation	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company		Group's effective interest	Principal activities
			Directly	Indirectly		
Universal Cyberworks International Limited	British Virgin Islands	2 ordinary shares of US$1 each	100% (2016: 100%)	—	100% (2016: 100%)	Investment holding
Universal Property Holdings Limited	Hong Kong	HK$10,000	—	100% (2016: 100%)	100% (2016: 100%)	Investment holding
Hooray Asset Management Limited	Hong Kong	HK$2,840,000	—	100% (2016: —)	100% (2016: —)	Provision of investment advisory services
Wayland Asia Pacific Estate Pty Ltd	Australia	AUD100	—	100% (2016: —)	100% (2016: —)	Estate development
Shenzhen Huanye Universal Technologies Limited *	People's Republic of China	RMB10,000,000	—	100% (2016: 100%)	100% (2016: 100%)	Investment holding
Qinghui Properties Limited (note)	People's Republic of China	RMB410,000,000	—	49% (2016: 49%)	49% (2016: 49%)	Investment holding
Dongguan Xinhongcheng Enterprise Management Company Limited	People's Republic of China	RMB15,000,000	—	49% (2016: 49%)	49% (2016: 49%)	Investment holding
Qingyuan Jingyu Properties Company Limited	People's Republic of China	RMB1,000,000	—	49% (2016: 49%)	49% (2016: 49%)	Properties investment
Qingyuan Jinhong Industrial Company Limited	People's Republic of China	RMB1,000,000	—	49% (2016: 49%)	49% (2016: 49%)	Properties investment
Qingyuan Kaipeng Properties Company Limited	People's Republic of China	RMB1,000,000	—	49% (2016: 49%)	49% (2016: 49%)	Properties investment
Qingyuan Water Supply Development Company Limited ("Water Supply Development")	People's Republic of China	RMB98,521,440	—	49% (2016: 49%)	49% (2016: 49%)	Provision of water supply business
Qingyuan Jincheng Water Testing Company Limited	People's Republic of China	RMB1,600,000	—	49% (2016: 49%)	49% (2016: 49%)	Provision of water quality testing service

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Name of company	Place of incorporation/establishment and operation	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company		Group's effective interest	Principal activities
			Directly	Indirectly		
Qingyuan Qingxin District Huike Properties Company Limited	People's Republic of China	RMB2,000,000	–	49% (2016: 49%)	49% (2016: 49%)	Investment holding
Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Water")	People's Republic of China	RMB23,254,000	–	49% (2016: 49%)	24.99% (2016: 24.99%)	Provision of water supply business

* The subsidiaries are registered as Wholly Foreign Owned Enterprises under PRC Laws.

Note:–

As disclosed in the Circular in respect of the acquisition of the Qinghui Group dated 3 December 2015, upon completion of the acquisition, the articles of association of Qinghui Properties Limited ("Qinghui") will be amended so that:–

(i) no resolutions relating to amending the articles of association; increase or decrease of the registered capital; merger, dissolution, winding-up or changing the company form of Qinghui shall be passed unless consents from the shareholders representing two thirds or more of the voting rights have been obtained;

(ii) save for the aforesaid, the board of directors shall be delegated with the authority to deal with all other matters in relation to Qinghui and such delegation shall not be revoked unless the shareholders of the Qinghui representing two thirds or more of the voting rights agree;

(iii) the vendor has right to appoint one director to the board of directors of Qinghui and the Group has right to appoint two directors to the board of directors of Qinghui;

(iv) no resolutions relating to management, operational activities, profit distribution or return on investment shall be passed unless more than 50% of directors agree; and

(v) any amendments to the articles of the association of Qinghui will require the approval from the shareholders of Qinghui representing two thirds or more of the voting right.

In light of the above amendments, the Group can gain control of Qinghui and accordingly, each member of Qinghui and its subsidiaries are treated as subsidiaries of the Group.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

The following table lists out the information relating to Water Supply Development and Taihe Water, subsidiaries of the Group which has material non-controlling interests (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017		2016	
	Water Supply Development	**Taihe Water**	Water Supply Development	Taihe Water
NCI Percentage	**51%**	**75.01%**	51%	75.01%

	2017		2016	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Current assets	**152,968**	**38,700**	217,135	58,788
Non-current assets	**439,725**	**332,019**	381,988	311,553
Current liabilities	**(175,392)**	**(96,183)**	(190,220)	(110,066)
Non-current liabilities	**(211,219)**	**(158,346)**	(242,381)	(158,369)
Net assets	**206,082**	**116,190**	166,522	101,906
Carrying amount of NCI	**105,102**	**87,154**	84,926	76,440

	2017		2016	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Revenue	**190,808**	**71,445**	174,980	138,106
Profit for the year	**36,183**	**6,338**	44,765	13,570
Other comprehensive income/(loss)	**13,627**	**7,946**	(11,698)	(6,750)
Total comprehensive income for the year	**49,810**	**14,284**	33,067	6,820
Profit allocated to NCI	**18,453**	**4,754**	22,830	10,179
Cash flows generated from operating activities	**68,149**	**1,989**	21,026	54,958
Cash flows used in investing activities	**(62,072)**	**(6,313)**	(59,955)	(83,723)
Cash flows (used in)/generated from financing activities	**(93,208)**	**(20,025)**	77,040	64,134

Five Years Financial Summary

For the year ended 31 December 2017

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**248,536**	444,347	224,417	317,148	189,847
Profit/(loss) for the year	**24,576**	(4,700)	(62,548)	37,734	(24,865)
Attributable to:					
Shareholders of the Company	**2,660**	(25,171)	(44,412)	32,694	(34,085)
Non-controlling interests	**21,916**	20,471	(18,136)	5,040	9,220
	24,576	(4,700)	(62,548)	37,734	(24,865)

ASSETS AND LIABILITIES

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**1,109,810**	1,027,836	1,143,297	178,823	374,843
CURRENT ASSETS	**644,788**	733,414	1,291,154	1,131,325	791,392
DEDUCT:					
CURRENT LIABILITIES	**601,402**	604,471	1,236,394	552,489	474,616
NET CURRENT ASSETS	**43,386**	128,943	54,760	578,836	316,776
	1,153,196	1,156,779	1,198,057	757,659	691,619
DEDUCT:					
NON-CURRENT LIABILITIES	**(431,635)**	(463,561)	(313,016)	(1,401)	(17,350)
NET ASSETS	**721,561**	693,218	885,041	756,258	674,269