中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1129

2018 INTERIM REPORT

Build A Dream and

Share Future Success

*For identification purpose only

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BOARD OF DIRECTORS

Executive Directors

Mr. Lin Yue Hui *(Chairman and Chief Executive Officer)*
(Appointed as a Chairman on 4 September 2018)
Mr. Liu Feng
Ms. Deng Xiao Ting
Ms. Chu Yin Yin, Georgiana
Mr. Zhong Wei Guang (Appointed on 4 September 2018)
Mr. Deng Jun Jie *(Chairman)*
(Resigned on 4 September 2018)

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Lin Yue Hui *(Chairman)*
(Appointed on 4 September 2018)
Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian
Mr. Deng Jun Jie *(Chairman)*
(Resigned on 4 September 2018)

INVESTMENT COMMITTEE

Mr. Lin Yue Hui *(Chairman)*
Mr. Liu Feng
Mr. Zhong Wei Guang (Appointed on 12 March 2018)
Mr. Liu Wei Qing
Mr. Li Han (Appointed on 12 March 2018)
Mr. Tang Po Shing (Appointed on 12 March 2018)

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

AUTHORISED REPRESENTATIVES

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

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

Hong Kong

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

LEGAL ADVISERS AS TO HONG KONG LAWS

Johnny K.K. Leung & Co.

LEGAL ADVISER AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon Capital Limited

AUDITOR

Crowe (HK) CPA Limited

REGISTERED OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1207, 12th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

CONTACTS

Telephone: (852) 2547 6382
Facsimile: (852) 2547 6629

WEBSITE

www.chinawaterind.com

STOCK

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FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	%
• **Financial Results**			
Revenue	**464,177**	289,177	60.52%
Gross profit	**181,772**	111,884	62.46%
Profit/(Loss) for the period	**53,453**	(41,498)	228.81%
Profit/(Loss) attributable to owners of the Company	**23,673**	(54,610)	143.35%
Profit/(Loss) per share (HK cents)			
– Basic and diluted	**1.48**	(3.42)	143.27%
EBITDA *(Note)*	**174,855**	38,163	358.18%

	As at 30 June 2018	As at 31 December 2017	Change
	HK$'000	*HK$'000*	%
• **Financial Position**			
Total assets	**3,317,882**	3,127,553	6.09%
Total liabilities	**1,479,872**	1,307,917	13.15%
Current assets	**1,221,472**	1,219,728	0.14%
Current liabilities	**939,393**	851,486	10.32%
Current ratio	**1.30 times**	1.43 times	(9.09%)
Cash and cash equivalents	**358,448**	297,883	20.33%
Gearing ratio	**44.60%**	41.82%	6.65%
Net asset value	**1,838,010**	1,819,636	1.01%
Equity attributable to owners of the Company	**1,305,324**	1,305,399	(0.01%)
Equity attributable to owners of the Company per share (HK$)	**0.82**	0.82	0.00%

Note: Profit before finance costs, income tax, depreciation and amortisation.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue	4	**464,177**	289,177
Cost of sales		**(282,405)**	(177,293)
Gross profit		**181,772**	111,884
Other income, net		**33,880**	28,310
Change in fair value of investment properties		**1,600**	–
Net gain on disposal of available-for-sale investments		**–**	1,524
Reversal of impairment loss recognised on trade and other receivables		**3**	88
Selling and distribution expenses		**(18,472)**	(17,068)
Administrative expenses		**(111,501)**	(83,054)
Finance costs	6	**(23,368)**	(10,254)
Net gain/(loss) on financial assets at fair value through profit or loss		**10,612**	(35,545)
Impairment loss recognised on available-for-sale investments		**–**	(16,815)
Share of profit/(loss) of associates		**2,278**	(2,092)
Profit/(loss) before tax		**76,804**	(23,022)
Income tax	7	**(23,351)**	(18,476)
Profit/(loss) for the period	8	**53,453**	(41,498)
Attributable to:			
Owners of the Company		**23,673**	(54,610)
Non-controlling interests		**29,780**	13,112
		53,453	(41,498)
Profit/(loss) per share (HK Cents)			
Basic and diluted	9	**1.48**	(3.42)

	Note	Six months ended 30 June **2018** ***HK$'000*** **(Unaudited)**	 2017 *HK$'000* (Unaudited)
Profit/(loss) for the period		**53,453**	(41,498)
Other comprehensive (loss)/income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of overseas subsidiaries:			
Exchange difference arising during the period		**(27,038)**	44,875
		(27,038)	44,875
Available-for-sale investments:			
Net loss arising on revaluation of available-for-sale investments during the period		**–**	(12,530)
Reclassification upon impairment		**–**	16,815
Reclassification adjustments relating to available-for-sale investments disposed of during the period		**–**	(8,092)
		–	(3,807)
Share of other comprehensive income of associates		**(1,927)**	2,055
Items that will not be reclassified to profit or loss:			
Gain on revaluation of investment properties upon transfer from property, plant and equipment		**9,103**	–
Deferred tax arising from revaluation on investment properties		**(2,276)**	–
Change in fair value of financial assets at fair value through other comprehensive income		**(4,550)**	–
		2,277	–
Other comprehensive (loss)/income for the period, net of income tax		**(26,688)**	43,123
Total comprehensive income for the period		**26,765**	1,625
Attributable to:			
Owners of the Company		**(75)**	(22,717)
Non-controlling interests		**26,840**	24,342
		26,765	1,625

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Note	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**767,143**	671,738
Deposits paid for acquisition of property, plant and equipment		**20,255**	17,021
Deposits paid for acquisition of subsidiaries		**36,735**	31,218
Prepaid lease payments		**152,352**	128,517
Operating concessions		**599,587**	578,286
Receivables under service concession arrangements		**26,405**	28,948
Investment properties		**62,740**	46,792
Other non-current assets		**20,560**	20,832
Other intangible assets		**296,869**	296,655
Available-for-sale investments	12	**–**	18,601
Financial assets at fair value through other comprehensive income	12	**46,244**	–
Interest in associates		**57,585**	59,009
Deferred tax assets		**9,935**	10,208
		2,096,410	1,907,825
Current assets			
Inventories		**189,736**	193,757
Receivables under service concession arrangements		**4,594**	4,923
Financial assets at fair value through profit or loss	12	**152,111**	40,576
Trade and other receivables	13	**434,670**	631,983
Prepaid lease payments		**3,557**	11,064
Amounts due from customers for contract works		**–**	19,276
Contract assets		**10,148**	–
Cash held by financial institutions		**94**	353
Bank balances and cash		**426,562**	317,796
		1,221,472	1,219,728

	Note	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Current liabilities			
Overdraft held at financial institutions		68,208	20,266
Trade and other payables	14	248,745	219,804
Amounts due to customers for contract works		–	214,781
Contract liabilities		224,780	–
Bank borrowings		67,469	70,833
Other loans		211,099	253,586
Obligations under finance leases	15	43,071	45,667
Deposit received from disposal of a associate		48,934	–
Amounts due to non-controlling shareholders of subsidiaries		319	132
Loans from associates		3,107	3,148
Tax payables		23,661	23,269
		939,393	851,486
Net current assets		282,079	368,242
Total assets less current liabilities		2,378,489	2,276,067
Capital and reserves			
Share capital	16	798,270	798,270
Share premium and reserves		507,054	507,129
Equity attributable to owners of the Company		1,305,324	1,305,399
Non-controlling interests		532,686	514,237
TOTAL EQUITY		1,838,010	1,819,636
Non-current liabilities			
Bank borrowings		66,120	96,267
Other loans		298,541	188,690
Obligations under finance leases	15	58,428	56,597
Government grants		33,197	34,803
Deferred tax liabilities		84,193	80,074
		540,479	456,431
		2,378,489	2,276,067

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Reserve fund *HK$'000*	Investment revaluation reserve *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling Interests *HK$'000*	Total equity *HK$'000*
At 1 January 2017 (audited)	798,270	954,318	1,748	(75,506)	42,214	8,893	–	(466,085)	1,263,852	374,355	1,638,207
Changes in equity for the six months ended 30 June 2017:											
Loss for the period	–	–	–	–	–	–	–	(54,610)	(54,610)	13,112	(41,498)
Other comprehensive income for the period	–	–	–	35,700	–	(3,807)	–	–	31,893	11,230	43,123
Total comprehensive income for the period	–	–	–	35,700	–	(3,807)	–	(54,610)	(22,717)	24,342	1,625
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	57,980	57,980
Transfers to reserve funds	–	–	–	–	5,352	–	–	(5,352)	–	–	–
At 30 June 2017 (unaudited)	798,270	954,318	1,748	(39,806)	47,566	5,086	–	(526,047)	1,241,135	456,677	1,697,812

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2018

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Revaluation reserve *HK$'000*	Translation reserve *HK$'000*	Reserve fund *HK$'000*	Investment revaluation reserve *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling Interests *HK$'000*	Total equity *HK$'000*
At 1 January 2018 (audited)	798,270	954,318	2,420	22,968	56,047	405	–	(529,029)	1,305,399	514,237	1,819,636
Impact on initial application of HKFRS 9 *(Note 3)*	–	–	–	–	–	(405)	405	–	–	–	–
At 1 January 2018 (restated)	798,270	954,318	2,420	22,968	56,047	–	405	(529,029)	1,305,399	514,237	1,819,636
Changes in equity for the six months ended 30 June 2018:											
Profit for the period	–	–	–	–	–	–	–	23,673	23,673	29,780	53,453
Other comprehensive loss for the period	–	–	3,482	(22,680)	–	–	(4,955)	405	(23,748)	(2,940)	(26,688)
Total comprehensive income for the period	–	–	3,482	(22,680)	–	–	(4,955)	24,078	(75)	26,840	26,765
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	3,062	3,062
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	6,636	6,636
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(18,089)	(18,089)
Transfers to reserve funds	–	–	–	–	6,552	–	–	(6,552)	–	–	–
At 30 June 2018 (unaudited)	798,270	954,318	5,902	288	62,599	–	(4,550)	(511,503)	1,305,324	532,686	1,838,010

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	**151,310**	35,298
NET CASH USED IN INVESTING ACTIVITIES	**(39,596)**	(299,773)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(26,750)**	27,840
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**84,964**	(236,635)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**297,883**	459,179
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(24,399)**	10,713
CASH AND CASH EQUIVALENTS AT 30 JUNE	**358,448**	233,257
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
CASH HELD BY FINANCIAL INSTITUTIONS	**94**	258
BANK BALANCES AND CASH	**426,562**	283,274
OVERDRAFT HELD AT FINANCIAL INSTITUTIONS	**(68,208)**	(50,275)
CASH AND CASH EQUIVALENTS AT 30 JUNE	**358,448**	233,257

1. COMPANY INFORMATION

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

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

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; and (ii) exploitation and sale of renewable energy in the PRC.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, except for the accounting policy changes set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

3. CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

A number of new or amended standards became applicable for the current accounting period, the following amendments to HKAS issued by the HKICPA which are relevant to the Group:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transaction
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15, Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers of Investment Property
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The application of the above new standards, amendments and improvements to existing standards and interpretation in the current period has had no material impact on the Group's result and financial position, except HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers". As a result of adopting the standards, the Group had to change its accounting policies. The impact of adoption is disclosed as follows.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The new accounting policies applied from 1 January 2018 are as follows:

(i) Classification

Debts instruments

HKFRS 9 has three financial asset classification categories for investments in debt instruments:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income ("**FVOCI**"); and
- those to be measured subsequently at fair value through profit or loss ("**FVPL**").

Classification depends on the entity's business model for managing the debt instruments and the debt instruments' contractual cash flow characteristics.

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets as at FVOCI only if both of the following criteria are met:

- the objective of the Group's business model is to hold the asset to collect the contractual cash flows and to sell financial assets; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) HKFRS 9 "Financial Instruments" *(Continued)*

(i) ***Classification*** *(Continued)*

Equity instruments

Investment in equity instruments are always measured at fair value. Equity instruments that are held for trading are measured at FVPL.

For equity instruments which are not held for trading, the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

(ii) ***Measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Equity instruments classified as fair value through other comprehensive income

The Group subsequently measures all equity instruments at fair value. Equity investments that are elected by the Group's management to be classified as FVOCI are not subject to impairment. Dividends from such instruments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

(iii) ***Impairment***

The Group assesses on a forward looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other financial assets originally categorised as loans and receivables under HKAS 39 which all have been classified as financial assets at amortised cost under HKFRS 9 from 1 January 2018, the Group has determined that reliably assessing the probability of default of the counterparties at the initial recognition of each financial asset would result in undue cost and effort. As permitted by a transition provision in HKFRS 9, provision for doubtful debts account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) HKFRS 9 "Financial Instruments" *(Continued)*

The impact of the adoption of HKFRS 9 is shown as follows:

(i) Classification and measurement of financial assets and liabilities

At the date of initial application of HKFRS 9 (1 January 2018), the Company's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets and liabilities into the appropriate HKFRS 9 categories.

The financial assets held by the Group include financial assets previously classified as available-for-sale investment under HKAS 39, and that have reclassified as financial assets at fair value through other comprehensive income under HKFRS 9. Except for the above, the application of HKFRS 9 does not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 30 June 2018.

The application of HKFRS 9 does not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

The following table summarizes the effect of initial application of HKFRS 9:

	At 31 December 2017 *HKD'000*	Impact on initial application of HKFRS 9 *HKD'000*	**At 1 January 2018** ***HKD'000***
Non-current assets			
Available-for-sale investments	18,601	(18,601)	**–**
Financial asset at fair value through other Comprehensive income	–	18,601	**18,601**
Equity			
Investment revaluation reserve	405	(405)	**–**
Fair value reserve (non-recycling)	–	405	**405**

(ii) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost and contract assets under HKFRS 15. At 30 June 2018, the Group assessed the impact of loss allowance is immaterial.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 15 "Revenue from Contracts with Customers"

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the modified retrospective approach in HKFRS 15, comparative figures have not been restated.

The accounting policies were changed to comply with HKFRS 15, which replaces both the provisions of HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations that relate to the recognition, classification and measurement of revenue and costs.

The new accounting policies and the impact of the adoption of HKFRS 15 is shown as follows:

Accounting for revenue from construction contracts

In prior reporting periods, the Group accounted for revenue from construction contracts when the outcome of construction contracts can be estimated reliably by reference to the stage of completion of the contract activities at the end of the reporting periods.

Under HKFRS 15, revenue from construction contracts is recognised when or as the construction projects are transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the construction projects may transfer over time or at a point in time. If construction projects have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Presentation of contract assets and liabilities

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- contract assets recognised in relation to construction contracts were previously presented as amounts due from customers for contract work; and

- contract liabilities recognised in relation to construction contracts were previously presented as amounts due to customers for contract work and deposits received and advances from customers included in trade and other payables.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

Presentation of contract assets and liabilities *(Continued)*

	At 31 December 2017 *HKD'000*	Impact on initial application of HKFRS 15 *HKD'000*	**At 1 January 2018** ***HKD'000***
Current assets			
Amounts due from customers for contract works	19,276	(19,276)	**–**
Contract assets	–	19,276	**19,276**
Current Liabilities			
Amounts due to customers for contract works	(214,781)	214,781	**–**
Trade and other payables	(219,804)	17,243	**(202,561)**
Contract liabilities	–	(232,024)	**(232,024)**

4. REVENUE

	Six months ended 30 June	
	2018 ***HK$'000*** **(Unaudited)**	2017 *HK$'000* (Unaudited)
Water supply services	**76,005**	56,278
Sewage treatment services	**23,463**	21,485
Water supply related installation and construction income	**136,592**	113,668
Water supply and sewage treatment infrastructure construction income	**44,521**	16,054
Sale of electricity	**168,475**	58,623
Sale of compressed natural gas	**8,278**	17,431
Service income from collection of landfill gas	**6,843**	5,638
	464,177	289,177

5. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Board of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

(i) "Provision of water supply, sewage treatment and construction services" segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and

(ii) "Exploitation and sale of renewable energy" segment, which derives revenues primarily from sale of electricity and compressed natural gas from biogas power plants.

Information regarding the Group's reportable segments as provided to the Board of the Company for the purposes of resource allocation and assessment of segment performance is set out below.

Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable and operating segments.

For the period ended 30 June 2018

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	280,581	183,596	464,177
Reportable segment profit	68,392	43,048	111,440
Unallocated corporate expenses			(31,765)
Interest income			3,114
Interest on overdraft held at financial institutions			(800)
Interest on fixed coupon bonds			(15,797)
Net gain on financial assets at fair value through profit or loss			10,612
Profit before taxation			76,804

5. SEGMENT INFORMATION *(Continued)*

Segment turnover and results *(Continued)*

For the period ended 30 June 2017

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue	207,485	81,692	289,177
Reportable segment profit	50,113	7,201	57,314
Unallocated corporate expenses			(21,674)
Interest income			180
Interest on overdraft held at financial institutions			(716)
Interest on fixed coupon bonds			(7,290)
Net gain on disposal of available-for-sale investments			1,524
Impairment loss recognised on available-for-sale investments			(16,815)
Net loss on financial assets at fair value through profit or loss			(35,545)
Loss before taxation			(23,022)

Other segment information

For the period ended 30 June 2018

	Provision of water supply, sewage treatment and construction services ***HK$'000***	**Exploitation and sale of renewable energy** ***HK$'000***	**Corporate** ***HK$'000***	**Total** ***HK$'000***
Interest income	**8,613**	**79**	**3,114**	**11,806**
Interest expenses	**(825)**	**(5,912)**	**(16,631)**	**(23,368)**
Share of profit of associates	**2,278**	**–**	**–**	**2,278**
Depreciation of property, plant and equipment	**(3,381)**	**(33,000)**	**(1,461)**	**(37,842)**
Amortisation of:				
– Prepaid lease payments	**(581)**	**(10)**	**(328)**	**(919)**
– Concession intangible assets	**(14,378)**	**(4,845)**	**–**	**(19,223)**
– Other intangible assets	**–**	**(16,699)**	**–**	**(16,699)**
Loss on disposal of property, plant and equipment	**(22)**	**(37)**	**–**	**(59)**
Concession intangible assets written off	**(18)**	**–**	**–**	**(18)**
Net gain on financial assets at fair value through profit or loss	**–**	**–**	**10,612**	**10,612**
Reversal of impairment loss recognised on trade and other receivables	**3**	**–**	**–**	**3**
Additions to non-current assets	**40,716**	**104,302**	**40,510**	**185,528**

5. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the period ended 30 June 2017

	Provision of water supply, sewage treatment and construction services	Exploitation and sale of renewable energy	Corporate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	3,829	102	180	4,111
Interest expenses	(460)	(1,788)	(8,006)	(10,254)
Share of losses of associates	(2,092)	–	–	(2,092)
Depreciation of property, plant and equipment	(3,371)	(20,904)	(932)	(25,207)
Amortisation of:				
– Prepaid lease payments	(531)	(2)	–	(533)
– Concession intangible assets	(12,583)	–	–	(12,583)
– Other intangible assets	–	(12,608)	–	(12,608)
Loss on disposal of property, plant and equipment	(3)	(385)	–	(388)
Concession intangible assets written off	(30)	–	–	(30)
Net gain on disposal of available-for-sale investments	–	–	1,524	1,524
Reversal of impairment loss recognised on trade and other receivables	86	2	–	88
Impairment loss recognised on available-for-sale investments	–	–	(16,815)	(16,815)
Additions to non-current assets	27,388	356,357	7,667	391,412

5. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

	Provision of water supply, sewage treatment and construction services HK$'000	Exploitation and sale of renewable energy HK$'000	Corporate HK$'000	Unallocated HK$'000	Total HK$'000
As at 30 June 2018 (unaudited)					
Reportable segment assets	**1,196,858**	**1,357,154**	**613,371**	**150,499**	**3,317,882**
Reportable segment liabilities	**(292,852)**	**(469,721)**	**(578,283)**	**(139,016)**	**(1,479,872)**
As at 31 December 2017 (audited)					
Reportable segment assets	1,240,104	1,254,241	514,172	119,036	3,127,553
Reportable segment liabilities	(346,231)	(395,445)	(478,126)	(88,115)	(1,307,917)

6. FINANCE COSTS

	Six months ended 30 June 2018 HK$'000 (Unaudited)	Six months ended 30 June 2017 HK$'000 (Unaudited)
Interest on:		
– bank borrowings	**3,112**	3,891
– other loans	**21,224**	18,153
– overdraft held at financial institutions	**999**	1,732
Finance charges on obligations under finance leases	**3,833**	1,031
Total borrowing cost	**29,168**	24,807
Less: interest capitalised included in construction in progress	**(5,800)**	(14,553)
	23,368	10,254

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
– Hong Kong Profits tax	**–**	–
Current tax		
– PRC Enterprise Income Tax ("**EIT**")	**24,190**	18,102
Over provision of tax in respect of prior years	**–**	(360)
Deferred tax	**(839)**	734
	23,351	18,476

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2018 (six months ended 30 June 2017: 16.5%).

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% on the estimated assessable profits for both periods, except disclosed as follows.

Certain subsidiaries of the Group, being engaged in provision of electricity supply and sale of renewable energy, under the EIT Law and its relevant regulations, are entitled to tax concession of 3-year full exemption and subsequent 3-year 50% exemption commencing from their respective years in which their first operating incomes were derived.

8. PROFIT/(LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit (loss) for the period has been arrived at after charging (crediting):		
Staff costs including directors' emoluments		
– salaries, wages and other benefits	**89,996**	68,061
– retirement benefits scheme contributions	**11,813**	9,491
Total staff costs	**101,809**	77,552
Amortisation of:		
– Prepaid lease payments	**919**	533
– Concession intangible assets (included in cost of sales)	**19,223**	12,583
– Other intangible assets	**16,699**	12,608
Depreciation of property, plant and equipment	**37,842**	25,207
Loss on disposal of property, plant and equipment	**59**	388
Concession intangible assets written off	**18**	30
Bank interest income	**(1,958)**	(2,167)
Minimum lease payments under operating leases	**4,329**	3,846
Net exchange loss/(gain)	**529**	(684)
Gross rental income from investment properties less direct outgoing of approximately HK$352,000 (first half 2017: HK$154,000)	**(1,212)**	(580)
(Profit)/loss on sale of properties, net	**(2,338)**	502

9. PROFIT/(LOSS) PER SHARE

The calculation of basic and diluted profit/(loss) per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to the owners of the Company, used in the basic and diluted profit/(loss) per share	**23,673**	(54,610)
	'000	*'000*
Weighted average number of ordinary shares issue		
Basic and diluted	**1,596,540**	1,596,540
Profit/(loss) per share (HK Cents):		
Basic and diluted	**1.48**	(3.42)

For the six months ended 30 June 2018 and 30 June 2017, diluted profit/(loss) per share equals basic profit/(loss) per share as there was no dilutive potential share.

10. DIVIDENDS

The directors of the Company do not recommend the payment of any interim dividend for the both reporting periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment amounted to approximately HK$151,179,000 (six months ended 30 June 2017: approximately HK$240,842,000), of which HK$28,876,000 (six months ended 30 June 2017: HK$80,033,000) was purchased through acquisition of subsidiaries.

During the six months ended 30 June 2018, the Group disposed of property, plant and equipment with carrying amount of approximately HK$74,000 (six months ended 30 June 2017: approximately HK$422,000).

During the six months ended 30 June 2018, the Group transferred certain owner – occupied properties with carrying amounts of approximately HK$6,575,000 (six months ended 30 June 2017: nil). The fair values of these properties upon transfer and at 30 June 2018 were approximately HK$15,678,000 and HK$15,789,000 respectively, as determined by the directors using income approach with reference to the valuation performed by a qualified valuer.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR SALE INVESTMENTS

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Listed equity securities, at fair value	**198,355**	59,177
Classified as:		
Financial assets at fair value through profit or loss		
– Current	**152,111**	40,576
Financial assets at fair value through other comprehensive income		
– Non-current	**46,244**	–
Available-for-sale investments		
– Non-current	**–**	18,601
	198,355	59,177

The above financial assets contained only equity securities listed in Hong Kong. The fair value of equity securities listed are determined based on the quoted market bid prices available on the Stock Exchange.

Financial instruments carried at fair value

Fair value hierarchy

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

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

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

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

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER COMPREHENSIVE INCOME AND AVAILABLE-FOR SALE INVESTMENTS *(Continued)*

Financial instruments carried at fair value *(Continued)*

Fair value hierarchy *(Continued)*

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

	At 30 June 2018				At 31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements								
Assets								
Available-for-sale investments								
– Listed	–	–	–	–	18,601	–	–	18,601
Financial asset at fair value through other comprehensive income								
– Listed	46,244	–	–	46,244	–	–	–	–
Financial assets at fair value through profit or loss								
– Listed	152,111	–	–	152,111	40,576	–	–	40,576

During the six months ended 30 June 2018, there were no significant transfer between instruments levels.

13. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 *HK$'000* (Unaudited)	At 31 December 2017 *HK$'000* (Audited)
Trade receivables	157,733	110,014
Less: Allowance for doubtful debts	(3,796)	(3,848)
	153,937	106,166
Other receivables	104,333	381,045
Less: Allowance for doubtful debts	(3,160)	(3,204)
	101,173	377,841
Loan receivables	197,245	139,327
Less: Allowance for doubtful debts	(54,844)	(54,844)
	142,401	84,483
Deposits and prepayments *(Note)*	37,159	63,493
	434,670	631,983

Note: Deposits and prepayments were mainly (i) deposits paid for purchases and (ii) tender deposits paid to independent third parties for bidding construction projects.

13. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows an average credit period of 0 days to 180 days given to the customers.

The ageing analysis of the trade receivables, net, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

	At 30 June 2018 ***HK$'000*** **(Unaudited)**	At 31 December 2017 *HK$'000* (Audited)
Within 90 days	**90,562**	89,131
91 to 180 days	**34,339**	12,111
181 to 365 days	**26,944**	2,869
Over 1 year	**2,092**	2,055
	153,937	106,166

14. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables, presented based on the invoice date:

	At 30 June 2018 ***HK$'000*** **(Unaudited)**	At 31 December 2017 *HK$'000* (Audited)
Within 90 days	**62,425**	47,246
91 to 180 days	**14,265**	6,187
181 to 365 days	**17,059**	24,415
Over 1 year	**12,311**	7,856
Trade payables	**106,060**	85,704
Other payables	**129,548**	120,996
Interest payables	**13,137**	13,104
	248,745	219,804

15. OBLIGATIONS UNDER FINANCE LEASES

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
	Present value of the minimum lease payments	Total minimum lease payment	Present value of the minimum lease payments	Total minimum lease payment
	HK$'000	HK$'000	HK$'000	HK$'000
Within 1 year	43,071	47,995	45,667	51,973
After 1 year but within 2 years	45,649	48,391	43,785	47,076
After 2 years but within 5 years	12,779	13,149	12,812	13,478
	58,428	61,540	56,597	60,554
	101,499	109,535	102,264	112,527
Less: total future interest expenses		(8,036)		(10,263)
Present value of lease obligations		101,499		102,264

16. SHARE CAPITAL

	At 30 June 2018 (Unaudited)		At 31 December 2017 (Audited)	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Authorised capital:				
Ordinary shares of HK$0.50 each				
At the beginning and the end of the period/year	4,000,000	2,000,000	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At the beginning and the end of the period/year	2,000,000	200,000	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.5 each				
At the beginning of the period/year	1,596,540	798,270	1,596,540	798,270
At the end of the period/year	1,596,540	798,270	1,596,540	798,270

17. CAPITAL COMMITMENTS

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Contracted but not provided for:		
Acquisition of concession intangible assets and property, plant and equipment, property under development	**134,154**	155,711
	134,154	155,711

18. OPERATING LEASE COMMITMENTS

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

At the end of the reporting period, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited)
Within one year	**9,637**	5,903
After one year but within five years	**15,161**	5,854
After five years	**29**	97
	24,827	11,854

19. LITIGATIONS

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

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

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

19. LITIGATIONS *(Continued)*

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

On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgement recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("**PRC Judgement**"). On 27 January 2016, the PRC Judgement was announced on the website of The People's Court Announcement for 60 days ("**Announcement Period**"). If Top Vision has not appealed for the PRC Judgement within 30 days after the Announcement Period, the PRC Judgement will be automatically effective thereafter, the Company can enforce the PRC Judgement. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgement in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. In 2016, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to HKIAC. HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. On 29 March 2018, HKIAC has appointed a sole arbitrator for this arbitration proceedings.

On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. ("**Tai Heng**") without payment of purchase consideration of RMB1 million. In light of this, Liquidators have through their solicitors issued a protected writ in the High Count against Tai Heng for recovery of a debt in the sum around HK$3.80 million plus interest and costs. Up to the publication date of this report, no substantial assets have yet been preserved or recovered. As at 31 December 2017 and 30 June 2018, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

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

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

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

19. LITIGATIONS *(Continued)*

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

The Deposit was classified as loan receivable and fully impaired in 2011. The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("**Commission**") for arbitration on 24 February 2012. The Commission accepted the case and started a trial on 5 June 2012. After the trial, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million ("**Principal**") and overdue interests thereon and the relevant arbitration fees. The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award was served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "**Kunming Court**") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application. On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "**Repayment Plan**") to Guangzhou Hyde. On 1 September 2014, Kunming Court had approved the civil enforcement against Yunnan Chaoyue Gas. Yunnan Chaoyue Gas had not performed the repayment obligation according to the Repayment Plan. On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "**Guarantors**") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "**Settlement Agreemen**t"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. Up to the publication date of this report, there was no significant progress on this legal proceeding. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

20. RELATED PARTY TRANSACTIONS

(i) The balances and transactions with related parties at the end of reporting period are disclosed elsewhere in the condensed consolidated interim financial information.

(ii) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**11,650**	5,425
Post-employment benefits	**75**	70
	11,725	5,495

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

21. ACQUISITION OF BUSINESSES

(a) Dongyang Grand Energy Co., Limited

On 22 November 2017, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with Grand Energy Group Co., Ltd.* ("**Grand Energy.**") (弘翔能源集團有限公司) to acquire 90% equity interests of the Dongyang Grand Energy Co., Ltd.* (東陽弘翔新能源有限公司) for a consideration of RMB22.95 million (equivalent to approximately HK$27.56 million). The acquisition was completed on 16 March 2018, on the date the control in Dongyang Grand was passed to the Group, since then, the Group is interested in 90% equity interests of Dongyang Grand Project. Dongyang Grand Project is principally engages in operation of landfill gas power generation plant in Dongyang city, Zhejiang Province, the PRC,for an operation period of 7 years until June 2025.

	HK$'000
Total consideration paid	22,120
Consideration payable	5,440
	27,560

Assets and liabilities at the date of acquisition recognised by the Group:

	HK$'000
Property, plant and equipment	28,876
Other intangible assets	21,633
Inventories	491
Trade and other receivables	14,022
Bank balances and cash	935
Trade and other payables	(935)
Income tax payables	(171)
Deferred tax liabilities	(5,408)
Bank borrowings	(28,821)
	30,622
Non controlling interests	(3,062)
	27,560

The initial accounting for the above acquisition has been determined provisionally, awaiting the receipt of professional valuation in relation to the above assets.

The fair value as well as the gross contractual amounts of the trade and other receivables acquired amounted to HK$14,022,000 at the date of acquisition.

21. ACQUISITION OF BUSINESSES *(Continued)*

(a) Dongyang Grand Energy Co., Limited *(Continued)*

Net cash outflow arising on acquisition

	HK$'000
Total consideration paid	(22,120)
Bank balances and cash acquired	935
	(21,185)

Impact of acquisition on the result of the Group

Included in the Group's profit for the six months ended 30 June 2018 is a loss of HK$1,015,000 attributable to the additional business generated by Dongyang Grand Project. Revenue included in the Group's revenue for the six months ended 30 June 2018 amount to HK$1,775,000.

22. EVENTS AFTER THE END OF THE INTERIM PERIOD

On 24 August 2018, the Company entered into the Placing Agreement with Mayfair & Ayers Financial Group Limited (the "**Placing Agent**"), pursuant to which the Company established a programme for the issuance of the Bonds from time to time. The Placing Agent has agreed to use its reasonable endeavors to procure independent Placees to subscribe for 5% coupon unlisted bonds of not less than an aggregate principal amount of HK$100,000,000 with a term of one year within the Placing Period. Up to the publication date of this report, the placing of the Bond has not been completed.

Details of the placing has been set out in the Company's announcement dated 24 August 2018.

FINANCIAL REVIEW

For the six month ended 30 June 2018 (the "**First Half 2018**"), the Group recorded a consolidated net profit of HK$53.45 million, representing a significant increase in financial performance as compared to the consolidated net loss of HK$41.50 million for the six months ended 30 June 2017 (the "**First Half 2017**"). Comparing with the First Half of 2017, the turnaround from loss to profit were caused mainly by: (i) the gross profit growth generated from renewable energy business as certain renewable energy projects commenced operation in the First Half of 2018; (ii) an increase in other operating income arising from interest income and service income received from renewable energy project management; (iii) absence of impairment loss on available-for-sale financial assets which was recorded in the First Half of 2017; (iv) the gain in fair value change of financial assets held for trading in the First Half of 2018 as compared with a loss recorded in the First Half of 2017; and (v) sharing profit results from associates in the First Half of 2018 as compared to share a loss in the First Half of 2017. The effects of the aforesaid facts were partially offset by an increase in administrative expense and finance costs due to the acquisition and establishment new renewable energy companies.

Revenue and gross profit

For the First Half 2018, total revenue was HK$464.18 million, an increase of HK$175.00 million, or 60.52% from HK$289.18 million for the First Half 2017. Such increase was mainly contributed by the significant increase in revenue generated from the renewable energy business of HK$101.91 million and the increase of water supply construction service business of HK$51.39 million.

Along with the increase in the Group's revenue during the First Half 2018, the Group's gross profit amounted to HK$181.77 million for the First Half 2018, representing an increase of HK$69.89 million or 62.46% from HK$111.88 million for the First Half 2017. The gross profit margin for the First Half 2018 was 39.16%, a slight increase of 0.47% from 38.69% of the same period of 2017.

During the period under review, the main revenue and gross profit contributors were Yichun Water Industry Co., Ltd ("**Yichun Water**") and its subsidiaries ("**Yichun Water Group**"), Yingtan Water Supply Group Co., Ltd ("**Yingtan Water**") and its subsidiaries ("**Yingtan Water Group**"), Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司) and Chengdu City Green State Renewable Energy Co. Ltd.* (成都市綠州新再生能源有限公司) which collectively accounted for 67.75% of the total revenue and 64.39% of the total gross profit.

FINANCIAL REVIEW *(Continued)*

Revenue and gross profit *(Continued)*

The summary of revenue and gross profit is as follows:

	Revenue				Gross Profit			
	2018		2017		**2018**		2017	
	HK$'M	***% to total***	*HK$'M*	*% to total*	***HK$'M***	***G.P.%***	*HK$'M*	*G.P. %*
Water supply business	**76.01**	**16.38**	56.28	19.46	**23.50**	**30.92**	19.64	34.90
Sewage treatment business	**23.46**	**5.05**	21.49	7.43	**5.58**	**23.79**	6.43	29.92
Construction services business	**181.11**	**39.02**	129.72	44.86	**74.06**	**40.89**	63.10	48.64
Exploitation and sale of renewable energy business	**183.60**	**39.55**	81.69	28.25	**78.63**	**42.83**	22.71	27.80
Total	**464.18**	**100**	289.18	100	**181.77**	**39.16**	111.88	38.69

Other income, net

In the First Half 2018, other income, net amounted to HK$33.88 million (First Half 2017: HK$28.31 million) represented other income of HK$24.96 million and other gain of HK$8.92 million. Other income comprised mainly interest income, rental income from investment properties, government subsidy to certain biogas power generation projects, VAT refund and handling fee. Other gain mainly represented a gain arising from the operations services provided pursuant to the Changsha Operation Contract and a net gain of property sale. The increase was primarily due to loan interest income received, rental income and a gain from service income received from renewable energy project management.

Selling and distribution expenses and administrative expenses

In the First Half 2018, selling and distribution expenses together with administrative expenses ("**Total Expenses**") collectively increased by HK$29.85 million to HK$129.97 million (First Half 2017: HK$100.12 million). The rise was primarily attributable to the acquisition and establishment of new renewable energy companies in the PRC which caused the increment of staff costs and associated operating expenses. These expenses mainly consisted of staff costs, insurance, rent and rates, legal and professional fee and depreciation. The ratio of Total Expenses for the First Half 2018 represented 28.00% of revenue, down by 6.62% from 34.62% for the First Half 2017.

Finance costs

Finance costs are mainly interests on fixed coupon bonds. For the First Half 2018, the finance costs were HK$23.37 million (First Half 2017: HK$10.25 million), an increase of HK$13.12 million as compared to that of corresponding period. The increase was due to the issue of new fixed coupon bonds in 2018.

FINANCIAL REVIEW *(Continued)*

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

Included in net gain on financial assets at fair value through profit or loss ("**FA**") comprised (i) HK$6.88 million for the fair value gain on listed equity securities and (ii) HK$3.73 million for the gain on disposal of listed equity securities. For the First Half 2018, net gain on FA recorded HK$10.61 million, an increase of HK$46.16 million from the loss of HK$35.55 million for First Half 2017. The increase was mostly due to fair value gain on FA and absence of fair value loss on investment fund which was recorded in the First Half 2017. The fair value of securities trading are determined based on the quoted market bid prices available on the Stock Exchange.

Share of results from associates

As at 30 June 2018, the Group had four associated companies, including 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("**Jinan Hongquan**"), 30% equity interest in Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**"), 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited ("**Yu Jiang Hui Min**") and 25% of Yingtan Yuanda Construction Industry Co., Ltd.* ("**Yingtan Yuanda Construction**"). For the First Half 2018, the Group shared the profit of HK$2.28 million (First Half 2017: loss of HK$2.09 million) which was mainly from the profit of HK$0.71 million from Jinan Hongquan and the profit of HK$1.66 million from Super Sino Group.

Income tax

Income tax expense represents income tax payable by the Group under relevant income tax rules and regulations where the Group operates. Income tax expense consists of current income tax and deferred income tax. No provision for Hong Kong profit tax has been made as the Group's operations in Hong Kong did not generate any profit subject to Hong Kong profits tax purpose. Current income tax mainly consists of PRC enterprise income tax at a rate of 25% that the PRC subsidiaries of the Group pay on their taxable income. During the period, certain renewable energy companies in PRC are subject to tax concessions under the relevant tax rules and regulation. For the First Half 2018, income tax expense increased by HK$4.87 million to HK$23.35 million in line with the good performance of the Group (First Half 2017: HK$18.48 million).

Profit attributable to Owners of the Company

For the First Half 2018, profit attributable to owners of the Company was HK$23.67 million (First Half 2017: loss of HK$54.61 million), an increase of HK$78.28 million primarily due to (i) more profit generated from wholly-owned renewable energy projects; (ii) absence of impairment loss on available-for-sale financial assets which was recorded in the First Half of 2017 and (iii) the gain in fair value change of FA.

Exposure to Fluctuations in Exchange Rates

Almost all of the Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in Renminbi ("**RMB**") but the books are recorded in Hong Kong dollars ("**HKD**"). In the First Half 2018, RMB recorded a depreciation against HKD resulted in a net exchange loss of HK$0.53 million (First Half 2017: exchange gain of HK$0.68 million). The Group has not adopted any hedging policies, as these currencies carry relatively low exchange fluctuation risks during the interim period. Nevertheless, the Group had been monitoring the foreign exchange exposures closely and hedging any significant foreign currency exposure in order to minimise the exchange risk should the needs arise.

TREASURY MANAGEMENT

For the First Half 2018, there had been no material change in the Group's funding and treasury policies. The Group generally finances its business operations with internally generated cash flow, bank facilities and other borrowings mainly from the issuance of bonds. To support medium to long term funding requirements, the Group also considers via accessing to funding from capital markets, subject to market conditions. On the other hand, the management of the Group closely reviews the trade receivable balances and any overdue balances on an ongoing basis and only trade with creditworthy parties. It has been the policy of the Group to maintain adequate liquidity at all times to meet its obligations and commitments as and when they fall due. The Group's financial risk management strategies include active managing firm level liquidity and interest rate profile via obtaining substantial long and short-term funding sources, with diversifying term structures and funding instruments.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the First Half 2018, the Group recorded cash and bank balance together with cash held at financial institutions of HK$358.45 million (31 December 2017: HK$297.88 million) including an overdraft held at financial institutions of HK$68.21 million (31 December 2017: HK$20.27 million). The increase in cash and bank balance of the Group was mainly due to the issuance of bonds and net cash flow from operating activities. With the steady operating cash flows, the Group should have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in HKD and RMB.

As at 30 June 2018, the net current assets for the Group were HK$282.08 million (31 December 2017: HK$368.24 million). The current ratio (current assets over current liabilities) is 1.30 times as at 30 June 2018 (31 December 2017: 1.43 times).

Net asset value was HK$1,838.01 million (31 December 2017: HK$1,819.64 million). Net asset value per share was HK$1.15 (31 December 2017: HK$1.14).

As at 30 June 2018, the Group's consolidated non-current assets increased by HK$188.58 million to HK$2,096.41 million (31 December 2017: HK$1,907.83 million) mainly due to further expansion of renewable energy business in 2018 by acquiring more related projects which made property, plant and equipment and operating concession to increase. In addition, Honghu Blue Valley Property has commenced the building construction and is expected to be completed in June 2019.

INVESTMENT PROPERTIES

As at 30 June 2018, the Group held the following investment properties:

Location	Usage	Approximately gross floor area (square meters)	Lease terms	% of occupancy rate	The Group's interest
1. Xiabu Centre					
Xiabu Water Plant Control Centre No. 1 Qilin East Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC	Commercial	16,781	Long	87.40%	51%
2. Yihai International Building					
Room C-103, Yihai International Street, 200 meters south of Phoenix Street and Lanting Road, Hedong District, Linyi City, Shandong Province	Commercial	151.96	Long	100%	60%
3. Yichun Properties					
i. No. 1-13, 1/F.,, 14 building, No. 150, Gulou Road, Yichun City	Commercial	175.28	Long	0%	51%
ii. No. 542, Mingyue North Road, Yuanzhou District, Yichun City.	Commercial	556.15	Long	100%	51%

As at 30 June 2018, the carrying value of investment properties recorded HK$62.74 million (31 December 2017: HK$46.79 million) including HK$58.12 million of the Xiabu Centre, HK$1.45 million of Yihai International Building and HK$3.17 million of Yichun Properties. The increase was due to the revaluation of fair value of investment properties. For First Half 2018, the gross rental income from investment properties less direct outgoing recorded HK$1.21 million (For First Half 2017: HK$0.58 million).

OTHER NON-CURRENT ASSETS

During 2015, Yingtan Water entered into agreements with a local government office to transfer all units of the investment property (the "**Resumption Properties**") to the local government for the development of a composite project (the "**New Premises**"), which Yingtan Water received compensation including transfer of certain construction floor areas of the New Premises (the "**Yingtan New Premises**"). As at 30 June 2018, the construction of New Premises are still under construction and is expected to be completed in September 2018. The carrying value of the Yingtan New Premises was HK$20.56 million (31 December 2017: HK$20.83 million).

INVENTORIES

As at 30 June 2018, inventories of HK$189.74 million (31 December 2017: HK$193.76 million) mainly comprised of properties held for sale of HK$136.62 million (31 December 2017: HK$156.99 million). Properties held for sale represented the construction of new commercial and residential buildings by Xiang Rui Property at Yingtan City, Jiangxi Province, the PRC which is entirely owned by Yingtan Water. The properties namely Yu Jing No. 1* (御景壹號) located at No. 8 Xinjiang North Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC has been completed in July 2017 with a total saleable area of 35,370 sq.m., which comprised of 372 residential apartments and 105 retail shops. The pre-sales of the project had commenced since October 2014. As at 30 June 2018, there were 351 residential apartments and 7 retail shops being sold (31 December 2017: 172 residential apartments and 6 retail shops). For the First Half 2018, the income and net gain recognised from the sale of properties were HK$29.43 million and HK$2.34 million respectively (For the First Half 2017: income of HK$7.52 million and net loss of HK$0.50 million).

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at 30 June 2018, the Group held financial assets at fair value through other comprehensive income ("**FVOCI**") and financial assets at fair value through profit or loss ("**FVPL**") of approximately HK$46.24 million and HK$152.11 million respectively. As at 30 June 2018, the Group's portfolio of securities trading and investment increased due to net addition and the fair value gain during the interim period. All securities investments of the Group were listed in Hong Kong.

The total market value of the portfolio investments was HK$198.35 million, representing 5.98% of the total assets value of the Group as at 30 June 2018 (31 December 2017: HK$59.18 million). The following analysis was the Group's top 10 investments at the end of reporting period:

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 30 June 2018	Effective interest held as at 30 June 2018	Initial investment cost *HK$'000*	Market value as at 30 June 2018 *HK$'000*	Realised gain/(loss) for the year ended 30 June 2018 *HK$'000*	Accumulated unrealised holding gain/(loss) on revaluation *HK$'000*	Percentage to total assets value of the Group as at 30 June 2018	Classification	Dividend received/ receivable during the interim period
China Best Group Holding Ltd	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities.	319,000,000	3.66%	26,782	26,158	2	(624)	0.81%	FVOCI	–
China Regenerative Medicine International Ltd	8158	Research and development of bio-medical and healthcare products, medical techniques; provision of the production and sales of tissue engineering products and its related by-products; sales and distribution of medical products and equipment.	79,700,000	0.45%	13,779	10,281	–	(3,498)	0.42%	FVOCI	–

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT *(Continued)*

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 30 June 2018	Effective interest held as at 30 June 2018	Initial investment cost *HK$'000*	Market value as at 30 June 2018 *HK$'000*	Realised gain/(loss) for the year ended 30 June 2018 *HK$'000*	Accumulated unrealised holding gain/(loss) on revaluation *HK$'000*	Percentage to total assets value of the Group as at 30 June 2018	Classification	Dividend received/receivable during the interim period
HK Life Sciences and Technologies Group Ltd	8085	Anti-aging and stem cell technology businesses; trading business; money lending business; and securities investment.	84,420,000	1.48%	7,599	5,403	–	(2,196)	0.23%	FVOCI	–
Dafeng Port Heshun Technology Co. Ltd	8310	Trading business, the provision of integrated logistics freight services and relevant supporting services as well as petrochemicals products storage business.	69,750,000	5.42%	47,334	42,548	–	(4,786)	1.43%	FVPL	–
Leyou Technologies Holdings Ltd	1089	The development and publishing of online multiplayer PC and console video games.	12,300,000	0.40%	25,137	29,766	2,393	4,629	0.76%	FVPL	–
Sino Haijing Holdings Ltd	1106	Manufacturing and sales of expanded polystyrene (EPS) packaging products for household electrical appliances in PRC.	97,000,000	0.78%	21,160	29,100	225	7,940	0.64%	FVPL	–
Common Splendor International Health Industry Group Ltd	286	Securities investments and finance and property investment.	24,200,000	0.81%	18,062	18,392	(131)	330	0.54%	FVPL	–
Future Bright Mining Holdings Ltd	2212	Production and sale of marble and marble related products; and trading of commodities	94,600,000	2.44%	17,907	17,312	–	(595)	0.54%	FVPL	–
Ms Concept Ltd	8447	Provision of catering services in Hong Kong.	37,300,000	3.73%	10,476	8,989	331	(1,487)	0.32%	FVPL	–
Fortunet E-Commerce Group Ltd	1039	Manufacture and sales of axles and related components; trading of goods through an electronic distribution platform, mobile applications and other related means in PRC.	7,600,000	0.42%	8,311	6,004	(217)	(2,307)	0.25%	FVPL	–
					196,547	193,953	2,603	(2,594)			

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT *(Continued)*

FVOCI: Financial asset at fair value through other comprehensive income

FVPL: Financial asset at fair value through profit or loss

The above top 10 investments in aggregate of HK$193.95 million represented 97.78% of the total market value of the portfolio investments.

The Board acknowledges that the performance of securities are affected by the degree of volatility in the Hong Kong stock market and susceptible to other external factor that may affect their value. Accordingly, in order to mitigate possible financial risk related to the securities, the Board will closely from time to time to monitor the investment portfolio and capture opportunities arising from securities trading and investments in a prudent manner and balance investment risks. The overall result of securities for the First Half 2018 was in a profit position, the Group believes that following the implementation of the favorable financial policies in Hong Kong, such as the Shanghai-Hong Kong Stock Connect, mutual recognition of funds and the Shenzhen-Hong Kong Stock Connect, the Group is optimistic about the future securities markets in Hong Kong.

TRADE AND OTHER RECEIVABLES

As at 30 June 2018, the Group's trade and other receivables were approximately HK$434.67 million (31 December 2017: HK$631.98 million). These comprised of: (i) trade receivables of HK$153.94 million, (ii) other receivables of HK$101.17 million, (iii) loan receivables of HK$142.40 million and (iv) deposits and prepayments of HK$37.16 million. As at 30 June 2018, trade receivables increased by HK$47.77 million to HK$153.94 million which was in line with the increase of revenue. (31 December 2017: HK$106.17 million). The average turnover period of the trade receivables as at 30 June 2018 were 42 days (31 December 2017: 44 days). The Group allows a credit period of 0 day to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period.

As at 30 June 2018, other receivables decreased by HK$276.67 million to HK$101.17 million (31 December 2017: HK$377.84 million) primarily due to money received for the redemption of fund and the deposits for bidding of land and for goods procurement being fully refunded. Other receivables included mainly project deposits of HK$31.08 million and other tax receivable of HK$20.42 million.

As at 30 June 2018, loans receivables increased by HK$57.92 million to HK$142.40 million (31 December 2017: HK$84.48 million) represented loans to unrelated parties which bear fixed interest rate ranging from 0.75% to 2% per month and maturity ranging from 4.5 months to 36 months. Subsequent to the period-end, HK$59.25 million received for the settlement of loan.

As at 30 June 2018, deposits and prepayments decreased by HK$26.33 million to HK$37.16 million (31 December 2017: HK$63.49 million) which mainly represented prepayment for material procurement and tender deposits for construction projects.

LIABILITIES AND GEARING

Total liabilities of the Group as at 30 June 2018 were HK$1,479.87 million, an increase of HK$171.95 million from HK$1,307.92 million for 31 December 2017. The increase was mainly attributable to addition loans borrowing to finance the expansion of biogas power generation business and investment in securities.

LIABILITIES AND GEARING *(Continued)*

Total liabilities mainly comprised of the bank and other borrowings of HK$643.23 million (31 December 2017: HK$609.38 million), trade and other payables of HK$248.75 million (31 December 2017: HK$219.80 million) and deferred tax liabilities of HK$84.19 million (31 December 2017: HK$80.07 million). Except for the following issuance of bonds denominated in HK$, borrowings were mainly denominated in RMB.

As at 30 June 2018, the Group's total bank and other borrowings were HK$643.23 million (31 December 2017: HK$609.38 million). For the maturity profile, refer to the table below:

	30 June 2018		31 December 2017	
	HK$'000	***%***	*HK$'000*	*%*
Classified by maturity				
– repayable within one year				
Bank borrowings	**67,469**	**10.49**	70,833	11.62
Other loans	**211,099**	**32.82**	253,586	41.62
	278,568	**43.31**	324,419	53.24
Classified by maturity				
– repayable more than one year				
Bank borrowings	**66,120**	**10.28**	96,267	15.80
Other loans	**298,541**	**46.41**	188,690	30.96
	364,661	**56.69**	284,957	46.76
Total bank and other borrowings	**643,229**	**100**	609,376	100
Classified by type of loans				
Secured	**133,589**	**20.77**	131,079	21.51
Unsecured	**509,640**	**79.23**	478,297	78.49
	643,229	**100**	609,376	100
Classified by type of interest				
Fixed rate	**540,075**	**83.96**	533,081	87.48
Variable-rate	**38,513**	**5.99**	10,806	1.77
Interest free rate	**64,641**	**10.05**	65,489	10.75
	643,229	**100**	609,376	100

Debt Analysis

The Group's gearing ratio as at 30 June 2018 was 44.60% (31 December 2017: 41.82%). The ratio was calculated by dividing total liabilities of HK$1,479.87 million (31 December 2017: HK$1,307.92 million) over total assets of the Group of HK$3,317.88 million (31 December 2017: HK$3,127.55 million).

BONDS AND NON-EQUITY FINANCING

The issuance of 2017 bonds

On 5 September 2017, the Company, Mr. Deng Jun Jie (the "**Guarantor**") and Prosper Talent Limited ("**Bondholder**") entered into a Subscription Agreement and Bond Instrument in respect of the issuance of bonds with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum, comprising of the Series A Bond, Series B Bond and Series C Bond (the "**2017 Bonds**"). Series A Bond of HK$100 million and Series B Bond of HK$100 million was issued on 5 September 2017 and on 19 September 2017 respectively (the "**2017 Bonds A and B**"). This 2017 Bonds A and B will mature in one year from the date of issuance. The repayment of the 2017 Bonds is guaranteed by Mr. Deng Jun Jie, an executive Director of the Company ("**Guarantee**"). The Guarantee is conducted on a better commercial terms without secured by any assets of the Group. Series C Bond expired as the Company did not subscribe it on or before 31 March 2018. As at 30 June 2018, the outstanding 2017 Bonds A and B amounted to HK$195.27 million and were classified as an other loan (FY2017: HK$193.71 million).

Placing of Bond I

On 25 October 2017, the Company entered into the Placing Agreement (the "**Placing Agreement I**") with Well Link Securities Limited (the "**Placing Agent I**"), pursuant to which the Placing Agent I on a best effort basis arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond I**"), within 70 days from the date of the Placing Agreement I. On 12 December 2017, the Company has completed the issuance of the Bond I to the placee(s) in an aggregate principal amount of HK$100 million. As at 30 June 2018, the outstanding Bond I amounted HK$99.05 million and was classified as an other loan (31 December 2017: HK$96.90 million).

Placing of Bond II

On 4 December 2017, the Company entered into the Placing Agreement (the "**Placing Agreement II**") with Ayers Alliance Securities (HK) Limited, Mayfair & Ayers Financial Group Limited (formerly known as "**Mayfair Pacific Financial Group Limited**") and Sincere Securities Limited (the "**Placing Agents II**"), to use its reasonable endeavors to procure independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount not less than HK$100 million (the "**Bond II**"), from the date of the Placing Agreement II and ending on 31 May 2018. On 31 May 2018, the Company entered into the Extension of Placing Agreement (the "**Extension Agreement**") with Mayfair & Ayers Financial Group Limited pursuant to which the parties have agreed to, among others, extend the expiry date of placing period from 31 May 2018 to 30 November 2018. As at 30 June 2018, the outstanding Bond II amounted HK$111.55 million and was classified as an other loan (31 December 2017: HK$17.95 million). Up to the publication date of this report, the Company has issued of the Bond II to the placees in an aggregate principal amount of HK$143.00 million. The placing of Bond II has not yet been completed.

BONDS AND NON-EQUITY FINANCING *(Continued)*

Placing of Bond III

On 11 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement III**") with Prior Securities Limited (the "**Placing Agent III**") pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond III**"), within 365 days from the date of the Placing Agreement III. As at 30 June 2018, the outstanding Bond III amounted HK$7.38 million and was classified as an other loan (31 December 2017: Nil). Up to the publication date of this report, the Company has issued of the Bond III to the placees in an aggregate principal amount of HK$11.00 million. The placing of Bond III has not yet been completed.

Placing of Bond IV

On 18 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement IV**") with Placing Agent III pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of 90 months in aggregate principal amount of up to HK$100 million ("**Bond IV**"), within 365 days from the date of the Placing Agreement IV. As at 30 June 2018, the outstanding Bond IV amounted HK$11.00 million and was classified as an other loan (31 December 2017: Nil).Up to the publication date of this report, the Company has issued of the Bond IV to the placees in an aggregate principal amount of HK$18.00 million. The placing of Bond IV has not yet been completed.

TRADE AND OTHER PAYABLES

As at 30 June 2018, the Group's trade and other payables were approximately HK$248.75 million (31 December 2017: HK$219.80 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

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

During the interim period, the Group incurred capital expenditures amounting to HK$20.16 million (First Half 2017: HK$15.42 million) for acquisition of concession intangible assets.

BUSINESS REVIEW

Water supply business

At present, the water market in China has precious development opportunities. In order to adapt to the rapid and sound development of urbanisation, water supply facilities are in urgent need of upgrading and scaling up. The "Nineteenth National Congress" report has indicated that the idea of "lucid waters and lush mountains are invaluable assets" must be firmly established and put into practice through the rigorous implementation of an ecological protection system. With the "Thirteenth Five-Year Plan" being implemented at full speed, the progress of urbanisation development and urban-rural integrated water supply will continue to accelerate. China is entering the peak of water treatment, water supply, sewage treatment services and water environment management are expected to grow steadily.

At present, there are 5 city water supply projects of the Group (including 2 water supply projects of associated companies) well spread in various provincial cities and regions across China, including Jiangxi, Shandong and Hainan (First Half 2017: 5 water supply projects). The daily aggregate water supply capacity was approximately 1.99 million tonne (including the capacity of 1.60 million tonne of two associated companies) (First Half 2017: 1.94 million tonne). The increase in water supply capacity of 50,000 tonne was due to the construction of second phase of water supply plant in Yichun City which completed in July 2017. The revenue from water supply business amounted to HK$76.01 million (First Half 2017: HK$56.28 million). The overall gross profit ratio was 30.92% (First Half 2017: 34.90%). The revenue rose by HK$19.73 million due to the increase of water supply sale volume and the increase in water tariff. But, the gross profit % dropped by 3.98% due to addition cost incurred to pay water source and the increase of maintenance capital expenditure. The rates for the water supply ranged from HK$1.74 to HK$2.69 per tonne.

Analysis of water supply projects on hand is as follows:

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

BUSINESS REVIEW (Continued)

Sewage treatment business

There are 3 sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (First Half 2017: 3 sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 170,000 tonne (First Half 2017: 170,000 tonne) generating a revenue of HK$23.46 million (First Half of 2017: HK$21.49 million) and gross profit of HK$5.58 million (First Half 2017: 6.43 million). The gross profit ratio was 23.79% (First Half 2017: 29.92%). The decrease in gross profit ratio by 6.13% was due to the growth of operating cost including electricity cost, salary expenses and maintenance capital expenditure. The rates for sewage treatment ranged from HK$0.65 to HK$1.32 per tonne.

Analysis of sewage treatment projects on hand is as follows:

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

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's major sources of revenue and gross profit contributing HK$181.11 million (First Half 2017: HK$129.72 million) and HK$74.06 million (First Half 2017: HK$63.10 million) respectively. The overall gross profit ratio was 40.89% (First Half 2017: 48.64%). The decrease in gross profit ratio by 7.75% was due to continuously rising wages and cost of construction materials.

BUSINESS REVIEW *(Continued)*

Exploitation and sale of renewable energy business

In the first half of this year, the government rolled out a number of policies with profound impact on the environmental protection industry, which filled the booming growth of the sector. The Group has been closely following key policies launched by the government concerning ecological environment protection, seizing opportunities and acting on its strength to steadily expand its environmental protection business. Up to the publication date of this report, the Group has secured a total of 31 biogas power generation projects (First Half 2017: 24 projects) and signed 5 agreements for acquisition and operation. All these projects are mainly located in various provincial cities across China including Jiangsu, Hunan, Shaanxi, Anhui, Hainan, Jiangxi, Sichun, Zhejiang, Chongqing, Shandong, Hebei, Guangxi and Guangdong. In 2017, the Group successfully tapped into a new market, namely Jakarta, Indonesia. For the First Half 2018, the Group recorded the revenue of HK$183.60 million (First Half 2017: HK$81.69 million) and gross profit of HK$78.63 million (First Half 2017: HK$22.71 million). Such increase was because 23 projects have full operation in First Half of 2018 (First Half 2017: 18 projects). The gross profit ratio rose by 15.03% to 42.83% (First Half 2017: 27.80%) due to newly acquired projects have started to generate positive contribution to the Group. As of 30 June 2018, the Group accumulated a total installed capacity of 87.8 MW, representing an increase of 138.85% compared to 30 June 2017 (First Half 2017: 36.76 MW). The average electricity rate was HK$0.62 per kilowatt-hour and the average CNG rate was HK$2.06 per m^3.

	Revenue				Gross Profit			
	2018		2017		**2018**		2017	
	HK$'M	***% to total***	*HK$'M*	*% to total*	***HK$'M***	***G.P.%***	*HK$'M*	*G.P. %*
Biogas power generation business								
– Sale of electricity	**168.48**	**91.76**	58.62	71.76	**77.51**	**46.01**	18.74	31.97
– Sale of compressed natural gas	**8.28**	**4.51**	17.43	21.34	**(1.67)**	**(20.17)**	1.07	6.14
– Service income from collection of landfill gas	**6.84**	**3.73**	5.64	6.90	**2.79**	**40.79**	2.90	51.42
Total	**183.60**	**100**	81.69	100	**78.63**	**42.83**	22.71	27.80

BUSINESS REVIEW *(Continued)*

Exploitation and sale of renewable energy business *(Continued)*

Analysis of renewable energy projects on hand is as follows:

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

BUSINESS REVIEW *(Continued)*

Exploitation and sale of renewable energy business *(Continued)*

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

** Up to the publication date of this report, these projects have not been formed the project company or completed the acquisition.

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

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

A. Haicheng Landfill Project

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

B. Anlu City Landfill Project

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

ACQUISITION AND/OR FORMATION OF RENEWABLE ENERGY PROJECTS DURING THE PERIOD UNDER REVIEW *(Continued)*

C. Laizhou City Landfill Project

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

D. Jiangsu Tangyuan Project

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

E. Guangzhou Huadu Landfill Project

On 29 June 2018, New China Water (Nanjing) entered into the service agreement with Guangzhou Huadu District Urban Administration* (廣州市花都區城市管理局), pursuant to which Guangzhou Huadu District Urban Administration granted the operational right to New China Water (Nanjing) to operate the Shiling Landfill Biogas Power Generation Project* (獅岭垃圾填埋場沼氣發電項目) ("**Guangzhou Huadu Landfill Project**") for a period of 5 years. New China Water (Nanjing) shall be responsible for the collection and utilization of Huadu District landfill gas, the construction and production, the integrated utilization of collected landfill gas resources and the obtainment of profits. New China Water (Nanjing) will invest RMB29 million (equivalent to approximately HK$34.37 million) to the project company for the construction of the relevant facilities in relation to the operation in the Huadu District Landfill Project. The total power generation capacity is amounting to 4,000 kilowatt per hour and an on-grid electricity price RMB0.689 per kilowatt hour. The project company was formed in August 2018.

ACQUISITION AND/OR FORMATION OF RENEWABLE ENERGY PROJECTS DURING THE PERIOD UNDER REVIEW *(Continued)*

F. Zhijiang Landfill Project

On 14 August 2018, Shenzhen New China Water entered into the capital injection agreement with Chufeng (Zhijiang) Environmental Service Co., Ltd.* (楚豐(枝江)環境服務有限公司) to acquire 51% equity interest of Zhijiang Xinzhongshui Chufeng Environmental Protection Technology Co., Ltd.* (枝江市新中水楚豐環保科技有限公司) ("**Zhijiang Landfill Project**") at a consideration of RMB5.20 million (equivalent to approximately HK$6.17 million). Zhijiang Landfill Project principally engaged in urban domestic waste landfill gas treatment and biomass energy power generation and sales. The collection period of landfill gas is until the volume of landfill gas generated from Zhijiang Landfill reduced to the level of which could not be further utilized. The Zhijiang Landfill Project is currently capable of processing garbage of 250 tonne per day, with an estimate useful life of not less than 15 years. The total power generation capacity is amounting to 2,000 kilowatt per hour and an on-grid electricity price RMB0.587 per kilowatt hour. Up to the publication date of this report, the acquisition has not been completed.

OTHER EVENT DURING THE PERIOD UNDER REVIEW

(i) Honghu Blue Valley Property

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

(ii) Photovoltaic Power Project

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

(iii) Hong Kong Glass Reborn Limited, an indirect non-wholly owned subsidiary of the Company was awarded a 5-year Glass Management Contract – Kowloon, Contract No. EP/SP/98/16 for Kowloon Region on 30 April 2018 by the Environmental Protection Department of The Government of The Hong Kong Special Administrative Region for a contract sum of approximately HK$91.46 million.

OTHER EVENT DURING THE PERIOD UNDER REVIEW *(Continued)*

(iv) On 29 May 2018, the Company entered into a non-legally binding memorandum of understanding (the "**MOU**") with a potential vendor, pursuant to which the Company will explore the possibility of acquiring certain equity interest in a company publicly listed in Hong Kong (the "**Possible Acquisition**") principally engaged in the production and development of industrial commodities products with a focus on metal. The MOU included terms such as preliminary pricing and relevant contingent pricing provisions which are still subject to finalisation upon entering into the formal sale and purchase agreement. The MOU does not create legally binding obligations on the parties in relation to the Possible Acquisition. Up to the publication date of this report, the Company is still carrying out the preliminary due diligence review on this Possible Acquisition.

(v) On 8 June 2018, Billion City Investments Limited, a direct wholly-owned subsidiary of the Company (the "**Vendor**"), the Company as Guarantor and Guangdong Water Group (H.K.) Limited, a subsidiary of Guangdong Investment Limited (the "**Purchaser**") entered into the sale and purchase agreement (the "**Agreement**") pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing 30% of the entire issued share capital of the Super Sino Investment Limited (the "**Target Company**"), and the Sale Loan due to the Vendor by the Target Company amounted to RMB27.48 million as at the date of the Agreement, at a consideration of RMB81.00 million (equivalent to approximately HK$95.78 million). As at 30 June 2018, the Vendor received RMB40.50 million as a deposit (equivalent to approximately HK$48.93 million), representing 50% of consideration from the Purchaser. Up to the publication date of this report, the disposal of Target Company has not been completed.

(vi) On 9 July 2018, New China Water (Nanjing) (the "**Intended Vendor**"), an indirect wholly-owned subsidiary of the Company, entered into the head of agreement with Kelin Environmental Protection Equipment, Inc.*(科林環保裝備股份有限公司) (the "**Intended Purchaser**"), pursuant to which the Intended Vendor intends to sell the entire equity interests of 14 companies principally engaged in landfill gas comprehensive utilization projects (the "**Target Companies**") to the Intended Purchaser in return for cash consideration, subject to due diligence review having been conducted on the Target Companies by the Intended Purchaser. Up to the publication date of this report, the Intended Purchaser is still carrying out the due diligence work on the Target Companies, no definitive agreement has been signed.

(vii) Placing of Bond V

On 24 August 2018, the Company entered into the Placing Agreement (the "**Placing Agreement V**") with Mayfair & Ayers Financial Group Limited (the "**Placing Agent**"), to use its reasonable endeavors to procure independent placees to subscribe for 5% coupon unlisted bonds with a term of one year in aggregate principal amount not less than HK$100 million (the "**Bond V**"), from the date of the Placing Agreement V and ending on 30 August 2019. Up to the publication date of this report, the Company has issued of the Bond V to the placees in an aggregate principal amount of HK$9.7 million, the placing of Bond V has not yet been completed.

OTHER EVENT DURING THE PERIOD UNDER REVIEW *(Continued)*

(viii) Change in information of directors

Pursuant to rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2017 Annual Report required to be disclosed were as follows:

- On 4 September 2018, Mr. Deng Jun Jie ("**Mr. Deng**") has resigned to act as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company. At the same date, Mr. Lin Yue Hui, currently an executive Director, Chief Executive Officer and a Chairman of Investment Committee of the Company, has been appointed as a Chairman and a Chairman of the Nomination Committee of the Company and Mr. Zhong Wei Guang has been appointed as an executive Director of the Company. Please refer to the announcement of the Company dated 4 September 2018 for further details.

- On 14 September 2018, the Board appointed Mr. Deng as a General Manager of the Securities Business Department. While working in the Group, Mr. Deng as an executive Director was responsible for overseeing security investment portfolio of the Group and all trading and investment activities associated with the management of the Group's portfolios. Following his resignation, Mr. Deng is willing to continue to provide the investment and strategy advice to the Group on the aforesaid investing matters. Given Mr. Deng's intensive experience in financial investment and capital operation, the Board considers that it would be beneficial to the Company to retain Mr. Deng to continue overseeing the security investment business.

Save as disclosed above, there are no other significant events affecting the Group after the period under review and up to the publication date of this report.

CAPITAL COMMITMENTS

As at 30 June 2018, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment and concession intangible assets and property under development approximately HK$134.15 million (31 December 2017: HK$155.71 million).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any contingent liabilities (31 December 2017: HK$14.41 million).

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$139.48 million in total as at 30 June 2018 (31 December 2017: HK$114.15 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$203.29 million (31 December 2017: HK$141.28); and

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

NO MATERIAL CHANGE

Save as disclosed in this report, during the period ended 30 June 2018, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2017.

EMPLOYEES

As at 30 June 2018, excluding jointly controlled entities and associates, the Group had 1,277 (30 June 2017: 1,183) employees, of which 15 (30 June 2017: 17) are Hong Kong employees. During the interim period, total employee benefit expenses, including directors' emoluments and provident funds, was HK$101.81 million (30 June 2017: HK$77.55 million). The increase was caused by several of our renewable energy projects have commenced their operations in 2018. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the interim period, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

PROSPECTS

Along with the rapid growth of the market and the further implementation of various environmental protection policies, the environmental protection concept of "Lucid waters and lush mountains are invaluable assets" gained the recognition of general public. In the first half of 2018, the Group captured the opportunities brought by favourable policies and further enhanced its business development with constant innovation in accordance with its annual operation goals and development plans while maintaining satisfactory growth in its business results.

I. Continuous development of water supply segment with stable growth in profit

Profits of water supply and sewage treatment enterprises have considerably increased. Tapping into the momentum for development, all water supply segment companies are constantly upgrading the technology of water quality treatment in order to secure the water safety and enhance quality water supply and sewage treatment services. Among which, Yingtan Water Group vigorously promoted NB-IOT water advanced metering infrastructure and optimised the management, leading to a significant decrease in leakage and damage ratio. Also, the application of such technology was interviewed and reported by CCTV-1. Yichun Water is fully devoted to developing the water market and has led the reformation of water supply price in central urban areas of Yichun. Water consumption price hierarchy has been effective since 1 January 2018, which realised the win-win situation for the development of both the Company and water supply resources of society. Other water service companies are developing orderly and significantly with overall results meeting the expectation at the beginning of the year. The advantage of brands was utilised to proactively seek for development of more projects and simultaneous growth in both operating revenue and net profits was actualised.

PROSPECTS *(Continued)*

II. Rapid development of environmental protection and new energy business and exploration of the industry to develop new models

1. New China Water companies currently own 31 (including overseas projects) biogas power generation projects, whereby the Group accumulated a total installed capacity of 87.8 MW in the first half of 2018, taking the leading position of the industry. In the first half of 2018, there was a significant growth in profits as compared to the same period last year. Meanwhile, 4 new projects were entered into in mainland China, including Liaoning Haicheng, Hubei Anlu, Shandong Laizhou and Guangdong Huadu.

2. The Group enhanced the innovation of scientific technology and pursued leading technology in the industry. Currently, it has acquired nearly 50 national patents and software copyrights and it has integrated its latest research results and production capacity to carve out the path of optimised urban and rural waste recycling. Integrating the platform of "internet+big data", the Group developed a set of data monitor and alert system of smart and mobile office and carried out real-time supervision on project construction and operation. The integration of technological innovation greatly boosted the core competitiveness of the corporation, which is beneficial to maintain its leading position in terms of technology.

3. Hong Kong Glass Project won the bidding of the glass management project in Kowloon district, Hong Kong Special Administrative Region with a contract sum of HK$91.46 million for a term of 5 years.

III. Considerable effort in development of city-industry integration segment and establish a comprehensive intelligent park

The construction works of Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) in Huizhou were commenced. Leveraging its prime location, the project is fully integrated into the "1-hour economy and life circle in Pearl River Delta" and matched up with the development of Xincheng, southern Huizhou. "Heart of the World, Corporate Park" was thereby established. Meanwhile, Nanjing Space Big Data Industry Base was unveiled – The first ever solid waste recycling headquarters and carbon emission trading market research and development exhibition centre in China, which the Group has put enormous efforts in it.

PROSPECTS *(Continued)*

IV. Team-building enhancement and cultivation of water service spirit in the elite team

In 2018, the Group focused on enhancing the building of the Group's team and establishing corporate culture by revisions of staff handbook and policies such as vehicle management and file management. It utilised mechanism to regulate daily operation rules and stimulate the potentials of its teams to enhance work efficiency and improve the Company's performance. Water industry sailing team is established with development of sailing boats to cultivate the team's intelligence in making strategies and build their willpower of constantly challenging against the nature and determination of reaching the goal despite whatever difficulty that lies ahead. The Group strives to build an elite team with water service spirit as it is believed that only adequate human resources and project resources can ensure the Group's sustainable development.

Along with the comprehensive implementation of the green development concept of the "13th Five-Year Plan" in the PRC, the prospects of environmental protection industry is becoming more promising. At the same time, the market competition of environmental protection field is also gradually becoming more serious. Amid the changes of policy and market, the Group will flexibly adjust itself and ride on the trend in the second half of the year. It will proactively demonstrate its cutting edge in terms of full industrial chain and comprehensive resources. Meanwhile, we will ambitiously expand the urban solid waste business in Southeast Asian countries and captures the strategic opportunities brought by the "The Belt and Road Initiative". Developing countries in Southeast Asia have realised the importance of resource recycling and urgency for solutions of environmental issues. Nevertheless, most of the solid waste enterprises are in sprouting or initial stages. The demand for relevant management experience and technical equipment brings us excellent business opportunities.

V. Delivering stable performance in water supply segment as principal business to enhance intelligent construction

The water supply and sewage treatment market in China has been growing as its urbanisation process accelerates. Hence, stabilising the principal business of water supply segment and improving intelligent construction will be the next development objectives of the Group.

1. Currently, the project of Yichun Mingyue Mountain Fangke Sewage Treatment covers an area of 60 mu in total and its estimated capacity is 40,000 tonnes of sewage/day. The completion of construction is more than half. The project is located in a tourist area of Wentang. With such a large scale of treatment, a stable return after completion is expected. A number of governments and enterprises in Yichun and Yingtan have approached the Group for collaboration, and on that account, there is no shortage of resources for our business reach in this water supply segment in the future.

2. It is proposed to establish intelligent water supply business and promote technological apparatus, such as NB-IOT water advanced metering infrastructure to press ahead with intelligence, digitisation and standardisation, aiming at optimising and resolving long-term issues in the water supply segment of the Group, while benefitting from cost reduction and profit maximisation.

PROSPECTS *(Continued)*

VI. Vigorously develop new eco-energy by utilising local resources and going global

As the impact of solid waste on the environment gradually emerges, the solid waste, garbage and waste gas treatment industries will enter a stage of rapid development. New eco-energy is a key development strategy of the Group with huge potentials for future development.

1. There are 3 projects currently under construction for the second phase of expansion, namely Chengdu Green State, the largest landfill gas power generation project in China, Hunan Changsha and Zhejiang Dongyang. Besides, 6 newly-established projects, namely, Hainan Danzhou, Shandong Laizhou, Liaoning Haicheng, Hubei Anlu, Hebei Zhangjiakou and Guangzhou Huadu, are currently under active construction. The above projects, after being put into production, will certainly bring about a substantial increase in the operating income and profit of the landfill gas power generation projects. The Group attaches great importance to the capitalization of advantage and the integration of resources, achieves strategic cooperation actively with enterprises of different fields and are planning to dispose of 14 New China Water project companies, in order to gain more funds to inject into quality projects in the market, broaden the Group's market coverage and enhance the competitiveness of the Group.

2. On the back of the "The Belt and Road" national initiative, we will actively participate in international market competition by delivering domestically successful cases abroad in order to become a national and even global urban environmental supporting service provider. We are simultaneously working with the government of Jakarta, Indonesia in a proactive manner, in a hope of the Jakarta project to be put into production as soon as possible.

3. Upon successful bidding of the Hong Kong Glass Project, collection points for recyclable glass beverage bottles were set up as network coverage collection service in commercial, industrial, property, residential buildings and housing estates in Kowloon, which laid a foundation for achieving business coverage all over the territory. In response to the source waste reduction and garbage sorting required by the government, we have a self-developed equipment line to carry out motivational promotion on environmental education and jointly contribute to the "Keep Hong Kong Clean" Campaign.

PROSPECTS *(Continued)*

VII. Unlocking potentials through constant exploration of city-industry integration business

In the second half of 2018, the Group will continue to develop by building on the existing Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) and the project of Nanjing Space Big Data Industry Base. We strive to establish more high-standard science research buildings, regional headquarters and high-end manufacturing industrial parks in various cities in the Guangdong-Hong Kong-Macao Greater Bay Area and Guangdong Free Trade Zone in a bid to facilitate urban renewal, seek diversified and industrialised development, and attract quality industries.

The Group will always be committed to achieving its business philosophy of "gaining government confidence, citizen satisfaction, shareholders' recognition and staff contentment". Rooted in China while eyeing global expansion, we consolidate our principal businesses and focus on proactive innovation concurrently. The Group is full of confidence in the fulfillment of results targets of the second half of 2018, in addition to the direction of its future development.

VIII. Sources of funding for the development of Group's businesses

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

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 June 2018, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the securities and futures ordinance ("SFO") which (a) had been notified of the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions in which directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for securities transactions by Directors of listed companies (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

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

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

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,596,539,766 shares in issue as at 30 June 2018.

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

(ii) Interest in the shares of associated corporation

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

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

Save as disclosed above, as at 30 June 2018, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions which directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section "Directors' and Chief Executive's interests in securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Honghu Capital	Beneficial owner	437,788,000 (L) *(Note 1)*	27.42%

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

Note 2: The shareholding percentage in the company is calculated on the basis of 1,596,539,766 shares in issue as at 30 June 2018.

Note 3: The letter "L" denotes a long position in shares.

SHARE CAPITAL

The Company's issued and fully paid share capital as at 30 June 2018 amounted to HK$798,270,000 divided into 1,596,539,766 ordinary shares of HK$0.50 each.

DIRECTORS' RIGHTS TO ACQUIRES OR DEBENTURES

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

SHARE OPTION SCHEME

At the annual general meeting (the "**2011 AGM**") of the Company held on 3 June 2011, the shareholders of the Company approved the adoption of the Company's New Share Option Scheme (the "**Scheme**"). From the date of the Scheme being adopted up to 30 June 2018, no share options have been granted. The purpose of the Scheme is to enable the Company to grant options to selected Participants as incentive and/or rewards for their contribution and support to the Group and any Invested Entity and/or to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity. The Scheme will remain in force for 10 years and expire on 2 June 2021.

PRE-EMPTIVE RIGHTS

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

SUFFICIENT OF PUBLIC FLOAT

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group recognises the importance of transparency and accountability to shareholders. The Board will continually review and enhance its corporate governance practices to ensure that they meet shareholders' expectation and comply with relevant standards. The Board believed that the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2018 and up to the publication date of this report except for the following deviation:

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

- Pursuant to the code provision of E.1.2 of the CG code, the chairman of the Board requires to attend the annual general meeting of the Company held on 13 June 2018 (the "**AGM**"). Mr. Deng Jun Jie, the Chairman of the Board, was unable to attend the AGM due to other business commitment. Mr. Lin Yue Hui, who took the chair of the AGM, together with other members of the Board who attended the AGM were of sufficient caliber and knowledge for answering questions at the AGM.

- Pursuant to the code provision A.2.1 of the CG code, it requires that the roles of Chairman and the CEO of the Company should be separated and should not be performed by the same individual. Upon the appointment of Mr. Lin Yue Hui ("**Mr. Lin**") as the Chairman of the Company becoming effective on 4 September 2018, Mr. Lin will perform both of the roles as the Chairman and the CEO of the Company. After evaluation of the current situation of the Group and taking into account of the experience and past performance of Mr. Lin, the Board is of the opinion that it is appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. Furthermore, there are various experienced individuals in charge of the daily business and the Board comprises five executive Directors and three independent non-executive Directors with balance of skill and experience appropriate for the Group's further development. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of the conduct for securities transactions by directors (the "**Model Code**"). The prohibitions on securities dealing and disclosure requirements in the Model Code apply to all Directors and Group's senior management and also persons who are privy to price sensitive information of the Group. Having made specific enquiry of all Directors and senior management, the Board confirmed that they had complied with the Model Code regarding directors' securities transactions throughout the accounting period and up to the publication date of this report.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

AUDITOR REVIEW OF THE INTERIM FINANCIAL RESULTS

The interim financial results have not been audited or reviewed by the Group's external auditors.

AUDIT COMMITTEE

The Audit Committee comprises 3 independent non-executive Directors ("**INEDs**") of the Company including Mr. Wong Siu Keung, Joe (Committee Chairman), Mr. Guo Chao Tian and Ms. Qiu Na, has reviewed with the management of the Company, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2018. The term of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

REMUNERATION COMMITTEE

The Remuneration Committee comprises 2 INEDs of the Company and 1 executive Director of the Company. It is mainly responsible for reviewing and evaluating the remuneration policies of executive Directors and senior management and making recommendations to the Board from time to time. The term of reference of the Remuneration Committee is available on the Company's website and on the Stock Exchange's website.

NOMINATION COMMITTEE

The Nomination Committee comprises 2 INEDs of the Company and 1 executive Director of the Company. The Nomination Committee is mainly responsible for reviewing the Board composition, Board Diversity Policy, advising the Board on the appointment and succession planning of Directors and assessing the independence of INEDs. The term of reference of the Nomination Committee is available on the Company's website and on the Stock Exchange's website.

INVESTMENT COMMITTEE

The Investment Committee consists of 3 executive Directors, one senior management and two department managers of the Group. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal. The term of reference of the Investment Committee is available on the Company's website.

PUBLICATION OF THE INTERIM REPORT

The interim report of the Company for 2018 containing all information required by the Listing Rules will be dispatched to Shareholders and made available on the websites of the Company (www.chinawaterind.com) and The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk).

BOARD OF DIRECTORS

The Board of the Company up to the publication date of this report comprise Mr. Lin Yue Hui (Chairman and CEO), Mr. Liu Feng, Ms. Chu Yin Yin, Georgiana, Ms. Deng Xiao Ting and Mr. Zhong Wei Guang, all being executive Directors, and Mr. Wong Siu Keung, Joe, Mr. Guo Chao Tian and Ms. Qiu Na, all being independent non-executive Directors.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to my fellow Directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continued supports.

By order of the Board
China Water Industry Group Limited
Lin Yue Hui
Executive Director

Hong Kong, 29 August 2018