TIL ENVIRO LIMITED
達力環保有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1790

ANNUAL REPORT
2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Non-executive Director

Mr. Lim Chin Sean

Executive Director and Chief Executive Officer

Mr. Wong Kok Sun

Independent Non-executive Directors

Mr. Tan Yee Boon
Mr. Hew Lee Lam Sang
Mr. Tam Ka Hei Raymond

AUDIT COMMITTEE

Mr. Hew Lee Lam Sang (Chairman)
Mr. Lim Chin Sean
Mr. Tam Ka Hei Raymond

REMUNERATION COMMITTEE

Mr. Tan Yee Boon (Chairman)
Mr. Tam Ka Hei Raymond
Mr. Hew Lee Lam Sang

NOMINATION COMMITTEE

Mr. Lim Chin Sean (Chairman)
Mr. Tam Ka Hei Raymond
Mr. Tan Yee Boon

AUTHORISED REPRESENTATIVES

Mr. Wong Kok Sun
Ms. Tsui Sum Yi

COMPANY SECRETARY

Ms. Tsui Sum Yi (ICSA, HKICS)

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Red Sun Capital Limited

REGISTERED OFFICE IN CAYMAN ISLANDS

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75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTERS

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Shanghai 200030
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
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75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKER

Bank of Communications Yinchuan Xita Sub-branch
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Yinchuan 750001
Ningxia
PRC

LEGAL ADVISER AS TO HONG KONG LAWS

Loong & Yeung Solicitors

STOCK CODE

1790 (listed on the Main Board of The Stock Exchange of Hong Kong Limited)

WEBSITE

www.tilenviro.com

CHAIRMAN'S STATEMENT

On behalf of the Board, it is my pleasure to present to you our annual report and audited financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

LISTING

The year of 2018 marked an important milestone and a new chapter for our Company with its Listing on the Main Board of the Stock Exchange on 29 November 2018. The Listing will provide strong capital support to our Company in carrying out our future business development.

As at 31 December 2018, our aggregate daily wastewater treatment capacity had already been increased to 375,000 cubic metres per day, and the discharge standard for all plants had already been upgraded to Class IA. The construction works for the expansion for Plant 4 by additional capacity of 100,000 cubic meters where the treated water discharge shall meet Quasi Surface Water Standard Class IV (準四類水標準) has commenced in the second half of 2018 and we expect it to be completed by the end of 2020.

The net proceeds from the Listing amounted to approximately HK$104.7 million in total (after deduction of underwriting fees, commission and estimated expenses) out of which HK$83.9 million will be earmarked to complete the contemplated expansion works of our existing facilities.

BUSINESS REVIEW

Financially, our Group recorded a revenue of approximately HK$492.5 million for the year ended 31 December 2018, representing an increase of approximately 34% as compared to the same period last year (2017: HK$366.4 million). Excluding our Group's successful Listing of one-off listing expenses of approximately HK$19.0 million, the profit for the year was approximately HK$89.2 million, representing a year-on-year increase of HK$30.3 million or 51% (2017: HK$58.9 million). While I am pleased with our operational performance, we will continue to operate our four wastewater treatment facilities in a cost-effective and efficient manner.

On another note, given local government of Yinchuan's continuous effort on adhering to the urban development ideology of "Green, High-end, Harmonious and Livable*" (綠色、高端、和諧、宜居), I am proud to share that our main subsidiary, TYW was accredited as an "Advanced Entity in Overall Environmental Management*" (環境綜合治理工作先進集體) for the year of 2017 as issued by the Municipal Government of Yinchuan in December 2018.

PROSPECTS

As a major city that locates on the upstream segment of the Yellow River, the local government of Yinchuan implemented a new set of plans regarding water treatment in 2015 including goals for resolving water pollution problems in Yinchuan by 2020, and has set a target to reach 100% wastewater treatment rate by 2020. The 13th Five-Year Wastewater Treatment and Recycling Facilities Construction Plan* (「十三五」全國城鎮污水處理及再生利用設施建設規劃) specifically set the targets regards wastewater treatment. Plans for Water Pollution Prevention and Control Projects in Key Drainage Basins* (for the period from 2016 to 2020) (重點流域水污染防治規劃(2016–2020年)) includes expanding the coverage of good quality surface water, reducing water pollution, and increasing the level of drinking water safety and protection by 2020. The Yellow River is one of the key focus listed in the plans, and Yinchuan's strategic location at the Yellow River drainage basin is expected to benefit from the PRC government's increasing focus on environment protection and water quality standards for the wastewater treatment services industry.

In view of this, our Group will continue to work with the local government of Yinchuan to improve the environmental awareness and protection for the wastewater treatment industry as we leverage on our extensive experience and proven track record.

APPRECIATION

I would like to take this opportunity to represent the Board and express our gratitude to the management of our Group and our pool of talented staff for their dedication and valuable contribution over the past year.

At the same time, we are deeply grateful to our customers, suppliers, business partners and shareholders for their continued support and trust. Our Group will continue to focus on the development of quality and efficiency so as to achieve satisfactory results and thereby bringing sustainable returns to our shareholders.

TIL Enviro Limited
Chairman
Lim Chin Sean

Hong Kong, 25 March 2019

* *For identification purpose only*

DEFINITIONS

In this annual report, unless the context other requires, the following terms shall have the meanings set forth below.

"AGM"	an annual general meeting of the Company
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 4 October 2018 and as amended from time to time
"Board"	our board of Directors
"Company"	TIL Enviro Limited (達力環保有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 17 April 2018, whose Shares are listed on the Main Board of the Stock Exchange
"Concert Party Deed"	a confirmatory deed in relation to parties acting in concert dated 11 April 2018 entered into between Mr. Lim Chee Meng and Mr. Lim Chin Sean to confirm and record the agreement and understanding between the parties for the acknowledgement of their acting in concert (having the meaning as ascribed to it under the Takeovers Code)
"Concession Agreement"	the Original Concession Agreement as supplemented by the Framework Agreement
"Director(s)"	the director(s) of our Company
"Framework Agreement"	a framework agreement dated 31 May 2014 entered into between Yinchuan Construction Bureau and TYW in respect of certain upgrading and expansion works to be carried out by TYW further to those provided under the Original Concession Agreement
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"LGB Group"	the family business of our controlling shareholders, which were a number of industry sectors, such as (i) public utilities and infrastructure; (ii) construction and engineering; and (iii) property development and investment etc.
"Listing"	the listing and the commencement of trading and dealing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	being 29 November 2018, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplement or modified from time to time

"Main Board"	the stock market (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with GEM operated by the Stock Exchange
"Memorandum of Association" or "Memorandum"	the amended and restated memorandum of association of our Company adopted on 4 October 2018 and as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Original Concession Agreement"	the concession agreement dated 21 September 2011 entered into between TYW and Yinchuan Construction Bureau pursuant to which TYW was granted a concession right for a term of 30 years from 21 September 2011 to 20 September 2041 to, among other things, operate, manage and maintain our four Wastewater Treatment Plants to provide wastewater treatment services in Yinchuan and undertake upgrading and expansion works (where applicable) on the facilities
"Plant 1" or "Yinchuan Wastewater Treatment Plant 1"	Yinchuan Wastewater Treatment Plant No.1 (銀川市第一污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at Bali Bridge, Manchun Town, Xingqing District, Yinchuan* (銀川市興慶區滿春鄉八里橋)
"Plant 2" or "Yinchuan Wastewater Treatment Plant 2"	Yinchuan Wastewater Treatment Plant No. 2 (銀川市第二污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at Liziyuan North Road, Xixia District, Yinchuan* (銀川市西夏區麗子園北路)
"Plant 3" or "Yinchuan Wastewater Treatment Plant 3"	Yinchuan Wastewater Treatment Plant No. 3 (銀川市第三污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at South of Jingtian East Road, Xixia District, Yinchuan* (銀川市西夏區經天東路以南)
"Plant 4" or "Yinchuan Wastewater Treatment Plant 4"	Yinchuan Wastewater Treatment Plant No. 4 (銀川市第四污水處理廠) operated and managed by TYW pursuant to the Concession Agreement, which is located at Ping Fu Qiao Village, Fengdeng Town, Jinfeng District, Yinchuan* (銀川市金鳳區豐登鎮平伏橋村)
"PRC" or "China"	the People's Republic of China and, except where the context otherwise requires and for the purpose of this annual report only, does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Prospectus"	the prospectus of our Company dated 31 October 2018 (as supplement by the supplemental prospectus of our Company dated 14 November 2018 (the "**Supplemental Prospectus**")) in relation to the initial public offering and the listing of the Shares on the Stock Exchange

"Reorganisation"	the reorganisation arrangements undertaken by our Group in preparation for the Listing
"Reporting Period"	1 January 2018 to 31 December 2018
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company with a nominal value of HK$0.01 each
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
"TYW"	Taliworks (Yinchuan) Wastewater Treatment Co. Ltd* (達力（銀川）污水處理有限公司), a company established with limited liability under the laws of the PRC on 6 May 2011, a wholly-owned and operating subsidiary of our Company
"Wastewater Treatment Plants"	Plant 1, Plant 2, Plant 3 and Plant 4
"Yinchuan Construction Bureau"	Bureau of Housing and Urban-Rural Development of Yinchuan* (銀川市住房和城鄉建設局), formerly known as Construction Bureau of Yinchuan* (銀川市建設局)
"%"	per cent.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"SG$"	Singapore dollars, the lawful currency of Singapore
"US$"	United States dollars, the lawful currency of the United States

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translations of official Chinese names which are marked with "" are for identification purpose only.*

BUSINESS REVIEW

We are a wastewater treatment service provider operating and managing four wastewater treatment facilities located in Yinchuan, being the capital city of Ningxia, the PRC, providing wastewater treatment services to the local government. We operate and manage our Wastewater Treatment Plants on a "Transfer — Operate — Transfer" (TOT) basis for 30 years since September 2011. We also undertake the upgrading and expansion of our wastewater treatment facilities to achieve higher wastewater discharge standards and to increase our designed treatment capacities.

Our revenue was primarily derived from three major revenue components, namely: (i) wastewater treatment construction services; (ii) wastewater treatment operation services; and (iii) finance income from service concession arrangement. For the year ended 31 December 2018, we recorded revenue of approximately HK$492.5 million, out of which the revenue contribution of our three major revenue components were as follows, (i) approximately 50% of our revenue was derived from wastewater treatment construction services; (ii) approximately 29% of our revenue was derived from wastewater treatment operation services; and (iii) approximately 19% of our revenue was derived from finance income from service concession arrangement.

As at 31 December 2018, our aggregate daily wastewater treatment capacity had already been increased to 375,000 cubic metres per day, and the discharge standard for all plants had already been upgraded to Class IA. We have completed the construction works for the upgrading of Plant 1 from Class II to Class IA during the year and is currently in the process of obtaining the completion acceptance. The construction works for the expansion for Plant 4 by additional capacity of 100,000 cubic meters where the treated water discharge shall meet Quasi Surface Water Standard Class IV (準四類水標準) has commenced in the second half of 2018 and we expect it to be completed by the end of 2020.

For the year ended 31 December 2018, the total quantity of water effluent treated was approximately 113,396,000 cubic meter, representing a decrease of approximately 6% from the year ended 31 December 2017 at 120,387,000 cubic meter, mainly due to one-off 15 days of suspension to Plant 1's wastewater treatment operations attributable to the upgrading works as well as lower incoming wastewater flows from Plant 3 and Plant 4 during the year.

During the Reporting Period, as an ancillary business, we had also derived approximately 1% of our total income from the supply of recycled water, which was the treated wastewater processed by our Plant 1 and Plant 3, to end-users in Yinchuan which include but not limited to a power plant and a public institution in Yinchuan in charge of public area landscaping.

On another note, given local government of Yinchuan's continuous effort on adhering to the urban development ideology of "Green, High-end, Harmonious and Livable*" (綠色、高端、和諧、宜居), our main subsidiary, TYW was accredited as an "Advanced Entity in Overall Environmental Management*" (環境綜合治理工作先進集體) for the year of 2017 as issued by the Municipal Government of Yinchuan in December 2018.

FINANCIAL REVIEW

Results of Operations

The following table sets out a summary of consolidated statement of comprehensive income of our Group for the years indicated:

Consolidated statement of comprehensive income

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Revenue	**492,505**	366,381
Cost of sales	**(316,390)**	(233,597)
Gross profit	**176,115**	132,784
Other income	**4,140**	2,847
Other gains/(losses), net	**5,423**	(3,083)
General and administrative expenses	**(36,937)**	(10,017)
— Listing expenses	**(19,037)**	–
Finance costs	**(43,646)**	(41,972)
Profit before taxation	**105,095**	80,559
Income tax expense	**(34,965)**	(21,659)
Profit for the year	**70,130**	58,900
Other comprehensive (losses)/income	**(42,119)**	42,253
Total comprehensive income for the year	**28,011**	101,153

Revenue

The Group's revenue is derived from (i) wastewater treatment construction services for the upgrading and expansion of our existing wastewater treatment facilities; (ii) wastewater treatment operation services; and (iii) finance income from service concession arrangement, despite that we generally only receive payments for our services rendered during the operational phase.

Our revenue increased from approximately HK$366.4 million for the year ended 31 December 2017 to approximately HK$492.5 million for the year ended 31 December 2018, representing a year-on-year increase of approximately HK$126.1 million or approximately 34%, which was primarily attributable to the increase in revenue derived from our wastewater treatment operation and construction services, further analysis of which is set out below:

- revenue derived from the wastewater treatment operation services increased from approximately HK$76.6 million for the year ended 31 December 2017 to approximately HK$142.7 million for the year ended 31 December 2018, representing a year-on-year increase of approximately HK$66.1 million or approximately 86%. As our wastewater treatment operation services revenue is recognised on the basis of actual costs with a reasonable profit margin, the increase was mainly attributable to our increase in costs to meet Class IA discharge standard for all plants;

- revenue derived from the wastewater treatment construction services increased from approximately HK$197.3 million for the year ended 31 December 2017 to approximately HK$248.7 million for the year ended 31 December 2018, representing a year-on-year increase of approximately HK$51.4 million or approximately 26%, such increase was primarily attributable to upgrading works carried out on Plant 1 and expansion of Plant 4 during the year;

- revenue derived from the finance income from service concession arrangement increased from approximately HK$86.0 million for the year ended 31 December 2017 to approximately HK$95.0 million for the year ended 31 December 2018, representing a year-on-year increase of approximately HK$9.0 million or approximately 10%, such increase was primarily attributable to the increase in receivable under the service concession arrangement mainly as a result of the upgrading and expansion works during the year; and

- the remaining revenue was primarily attributable to the recycle water supply operation services and management fees from related companies, which remained largely stable at approximately HK$6.5 million and HK$6.1 million for the two years ended 31 December 2017 and 2018, respectively.

Cost of sales

Our cost of sales increased from approximately HK$233.6 million for the year ended 31 December 2017 to approximately HK$316.4 million for the year ended 31 December 2018, representing a year-on-year increase of approximately HK$82.8 million or approximately 35%, which was primarily attributable to the increase in construction costs and cost of wastewater treatment operation, further analysis of which is set out below:

- construction costs increased from approximately HK$179.3 million for the year ended 31 December 2017 to approximately HK$226.1 million for the year ended 31 December 2018, representing an increase of approximately HK$46.8 million or approximately 26%. The construction costs recorded during the year ended 31 December 2018 was mainly attributable to upgrading and expansion works carried out on Plant 1 and Plant 4;

- costs of wastewater treatment operation increased from approximately HK$41.2 million for the year ended 31 December 2017 to approximately HK$74.5 million for the year ended 31 December 2018, representing an increase of approximately HK$33.3 million or approximately 81%. Such increase was mainly attributable to higher chemical and utility cost to meet Class IA discharge standard for all plants;

- the remaining cost of sales, which consisted primarily of employee benefit expenses, amortisation of intangible assets, repair and maintenance costs and other costs, recorded a slight increase from approximately HK$13.1 million for the year ended 31 December 2017 to approximately HK$15.9 million for the year ended 31 December 2018, such movement was mainly attributable to a year-on-year increase of approximately HK$2.6 million in employee benefit expenses.

Gross profit and gross profit margin

Our gross profit increased from approximately HK$132.8 million for the year ended 31 December 2017 to approximately HK$176.1 million for the year ended 31 December 2018, representing a year-on-year increase of approximately HK$43.3 million or approximately 33%, which was primarily attributable to the increase in revenue derived from our wastewater treatment operation services during the year ended 31 December 2018. Our gross profit margin remained largely stable at approximately 36% for the two years ended 31 December 2017 and 2018, respectively. Further analysis on the gross profit and gross profit margin is set out below:

- gross profit derived from the wastewater treatment operation services and recycle water supply operation services, amounted to approximately HK$27.7 million and HK$57.7 million for the year ended 31 December 2017 and 2018, respectively;

- gross profit margin for the upgrading and expansion services, which contributed approximately 50% of our revenue for the year ended 31 December 2018 (2017 approximately 54%), were lower than our gross profit margin derived from the provision of wastewater treatment operation services, which contributed approximately 29% of our revenue for the year ended 31 December 2018 (2017 approximately 21%); and

- our finance income from service concession arrangement, representing the imputed interest income, amounted to approximately HK$86.0 million and HK$95.0 million for the year ended 31 December 2017 and 2018, respectively.

Other income

Other income increased by approximately HK$1.3 million, or approximately 46%, to approximately HK$4.1 million for the year ended 31 December 2018 from approximately HK$2.8 million for the year ended 31 December 2017, such increase was mainly attributable to increase in value-added tax refund attributable to intangible assets by approximately HK$0.9 million to approximately HK$2.8 million (2017: HK$1.9 million) and increase in interest income by approximately HK$0.5 million to approximately HK$1.1 million (2017: HK$0.6 million).

Other gains and losses, net

Our Group recorded net other gains of approximately HK$5.4 million for the year ended 31 December 2018 compared to net other losses of approximately HK$3.1 million for the year ended 31 December 2017. Such movement in the other gains and losses, net balance was mainly attributable to net foreign exchange gains of approximately HK$3.9 million (2017: net foreign exchange loss of approximately HK$4.0 million).

General and administrative expenses

General and administrative expenses, excluding listing expenses of approximately HK$19.0 million recognised during the year, increased by approximately HK$7.9 million, or approximately 79%, to approximately HK$17.9 million for the year ended 31 December 2018 from approximately HK$10.0 million for the year ended 31 December 2017. Such increase was primarily due to increase in the legal and professional fee (including audit fee) and travelling and transportation expenses for the year ended 31 December 2018 amounted to approximately HK$6.7 million, representing an increase of approximately HK$4.2 million as compared to the year ended 31 December 2017 (2017: HK$2.5 million).

Finance costs

Finance costs increased by approximately HK$1.6 million, or approximately 4%, to approximately HK$43.6 million for the year ended 31 December 2018 from approximately HK$42.0 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in interest expense on borrowings arising from higher drawdown of loan during the year.

Income tax expense

We incurred income tax expense of approximately HK$35.0 million for the year ended 31 December 2018 and approximately HK$21.7 million for the year ended 31 December 2017 at effective tax rates of approximately 33% and 27%, respectively. The increase in effective tax rate was mainly attributable to the increase in non-tax deductible expenses such as one-off listing expenses recorded by our Group during the year.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit for the year increased from approximately HK$58.9 million for the year ended 31 December 2017 to approximately HK$70.1 million for the year ended 31 December 2018, representing an increase of approximately HK$11.2 million, or approximately 19%.

The total comprehensive income for the year ended 31 December 2017 amounted to approximately HK$101.2 million compared to approximately HK$28.0 million for the year ended 31 December 2018. The difference between the profit for the year and the total comprehensive income for the year was due to currency translation differences from the translation of RMB being our functional currency to HK$ being our reporting currency (2018: RMB/HKD1.1384, 2017: RMB/HKD1.1963).

Earnings per share ("EPS")

For the year ended 31 December 2018, the earnings per share for profit attributable to owners of the Company (basic and diluted) was HK$0.26 per share as compared to HK$0.79 per share* for the year ended 31 December 2017. Such decrease was primarily due to increase in number of ordinary shares in issue pursuant to capitalisation of shareholders' loan and Share Offer which took effect in September and November 2018, respectively.

* Although our Company was listed on 29 November 2018, the EPS calculation for 2017 was on the assumption that the Reorganisation has been effective from 1 January 2017.

Receivable under Service Concession Arrangement

Our receivable under service concession arrangement that were classified as (i) current assets were approximately HK$251.4 million and HK$264.9 million as at 31 December 2017 and 2018, respectively; and (ii) non-current assets were approximately HK$1,153.5 million and HK$1,266.9 million as at 31 December 2017 and 2018, respectively.

Our total receivable under service concession arrangement amounted to approximately HK$1,404.9 million and HK$1,531.8 million as at 31 December 2017 and 2018, respectively. This represented a year-on-year increase of approximately 9% from 2017 to 2018, primarily due to the tariff payments received by our Group being less than the revenue recognized from (i) our wastewater treatment construction services; (ii) our wastewater treatment operation services; and (iii) finance income from service concession arrangement during the year ended 31 December 2018.

Cash and bank balances

Our Group's cash and bank balances increased by approximately 113% to approximately HK$301.5 million in 2018 as compared to approximately HK$141.5 million in 2017, mainly due to the net proceeds raised from the initial public offering of our Shares listed on the Stock Exchange. The cash and bank balances were denominated in HK$, RMB, US$ and SG$.

Borrowings

As at 31 December 2018, our Group had bank borrowings of approximately HK$763.7 million (2017: HK$768.5 million), represented by short-term working capital loan of HK$12.0 million (2017: HK$19.1 million) and long-term loan of HK$751.7 million (2017: HK$749.4 million), which were denominated in RMB.

Liquidity and Capital Resources

Our principal liquidity and capital requirements primarily related to construction of our wastewater treatment facilities and purchase of equipments, as well as costs and expenses from business operations. As at 31 December 2018, the net current assets and net assets of the Group amounted to approximately HK$421.9 million and HK$970.0 million respectively (2017: net current liabilities and net assets of approximately HK$293.4 million and HK$181.5 million respectively).

Gearing Ratio

As at 31 December 2018, the gearing ratio (calculated by net debts divided by total equity; net debts include total borrowings plus amounts due to related companies minus cash and bank balances) was approximately 33% (2017: approximately 87%).

Contractual Obligations

Capital commitments

As at 31 December 2017 and 2018, our Group has the following capital commitments in respect of upgrading and expansion works of our Wastewater Treatment Plants:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Contracted but not provided for	**88,725**	200,530

As at 31 December 2018, our capital commitments of approximately HK$88.7 million was related to the upgrading and expansion works of Yinchuan Wastewater Treatment Plant 4.

Lease commitments

Our Group had the following future aggregate minimum lease payments under non-cancellable operating leases as at 31 December 2017 and 2018:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Within one year	**439**	717
Over one year	**–**	30
	439	747

Contingent Liabilities

Our Group did not have any material contingent liabilities or outstanding litigation as at 31 December 2018.

Off-balance sheet arrangements

As at 31 December 2018, save as disclosed, we have not, nor do we expect, to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an uncombined entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

Initial Public Offering and Use of Proceeds

The Shares of our Company were listed on the Main Board of the Stock Exchange on 29 November 2018 and the Company issued 250,000,000 Shares of par value of HK$0.01 per share with the offer price of HK$0.58 per Share (the "**Share Offer**"). The total issuance size (before deducting the expenses) amounted to approximately HK$145 million. The net proceeds from the Share Offer received by the Company, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Share Offer, were approximately HK$104.7 million.

As of 31 December 2018, we have not utilised any of the net proceeds from the Share Offer. Such net proceeds will be applied in accordance with the proposed application as disclosed in the Supplemental Prospectus.

Foreign Currency Risk

Our Group principally operates in the PRC with most of the transactions being settled in RMB, which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies, including the US$ (the "**Non-functional Currency**").

Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional Currency in which our group entities conduct business may affect our Group's financial position and results of operations. Our Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position.

Charges on the Group's Assets

As at 31 December 2018, there were no charges on our Group's assets.

Employees and remuneration policies

Our Group had 158 full-time employees as at 31 December 2018 (2017: 146). Remuneration is determined on various factors such as their work experience, educational background, qualifications or certifications possessed.

The compensation package for our employees generally comprises basic wages, over-time work allowances, bonuses, retirement benefits and other staff benefits. We conduct annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees. For the year ended 31 December 2018, our employee benefit expenses were approximately HK$17.7 million (2017: HK$13.8 million). Our Company has adopted a share option scheme pursuant to which the Directors and employees of our Group are entitled to participate.

Material Acquisitions and Disposals

During the year ended 31 December 2018, save for the Reorganisation as discussed in the section headed "History, Reorganisation and Development" in the Prospectus , the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Significant investments held

As at 31 December 2018, our Group had no significant investments.

Future Plans for Material Investments

Save as disclosed in the Prospectus, our Group did not have other plans for material investments and capital assets as at 31 December 2018.

Events after the Reporting Period

Our Group has no significant evens after the Reporting Period up to the date of the approval of the consolidated financial statements.

Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

DEVELOPMENT STRATEGY AND PROSPECTS

2018 was the first year that our Shares were listed on the Main Board of the Stock Exchange. The successful listing of our Shares will provide strong capital support to our Company in carrying out our future business development.

In the meantime, our Group will continue to strengthen our mission of ensuring stable operation, stable outflow of treated wastewater as per required discharge standards under the Concession Agreement (穩定達標排放) and will continue to focus on cost optimization and increasing efficiency in our existing wastewater treatment facilities.

REPORT OF DIRECTORS

The Directors are pleased to present to the Shareholders their report together with the audited consolidated financial statements of our Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of our Company is investment holding. Its subsidiaries are principally engaged in wastewater treatment services and managing and operating four wastewater treatment facilities in Yinchuan, Ningxia, the PRC.

RESULTS AND APPROPRIATIONS

The results of our Group for the year ended 31 December 2018 are set out on pages 54 to 119 of this annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018.

BUSINESS REVIEW

A fair review of the business of our Group during the year and a discussion on our Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 18 of this annual report.

The above discussions form part of this directors' report.

PRINCIPAL RISKS AND UNCERTAINTY

Various risks and uncertainties that our Group may face are as follows:

(i) our Group may not be able to renew our Concession Agreement upon its expiry and may not be able to secure new projects to sustain or grow our business;

(ii) over 90% of our Group's revenue in the past four years were from our Group's largest customer, Yinchuan Construction Bureau. In the event that the Concession Agreement is early terminated, it could have a material adverse impact on our business, financial condition and operational results;

(iii) we recognise revenue from our wastewater treatment construction services for the upgrading and expansion works, but typically do not receive any actual payments in return for that until the operational phase of these upgraded and/or expanded parts, which may adversely affect our results of operations and liquidity, and our revenue may decline after 2020 after all of the upgrading and expansion works have been completed; and

(iv) our Group may not be granted revisions to our tariffs and/or basic volumes in a timely manner and we cannot guarantee that such revisions could fully cover the increase in our actual costs incurred in day-to-day operations as well as in our contemplated upgrading and expansion works which are capital intensive in nature.

COMPLIANCE WITH LAWS AND REGULATIONS

Strenuous efforts are exerted to ensure compliance with the laws and regulations of the jurisdictions in which our Group operates.

Health and Safety Compliance

Pursuant to national and local health and safety laws and regulations in the PRC, we are required to provide our employees with a safe working environment. Therefore, we have established comprehensive work place safety policies and guidelines for our employees. Each of our wastewater treatment facilities maintains its own emergency reporting system in case of safety hazards. Our employees are provided with protective gears and clothing within our Wastewater Treatment Plants. We also conduct regular inspection and maintenance checks on our equipment to ensure that they are in compliance with the applicable national or industrial standards in respect of their design, manufacturing, installation and use.

During the Reporting Period, we had complied with the applicable national and local occupational health and safety laws and regulations in all material respects and we had not been imposed any sanctions or penalties for any non-compliance with applicable laws and regulations on health and safety in the PRC.

Environmental Matters

We are subject to various laws and regulations regarding environmental protection and water quality of treated wastewater discharged from our Wastewater Treatment Plants. In carrying out the upgrading and expansion works at our Wastewater Treatment Plants, we are required under the relevant PRC laws to conduct environmental impact assessment and submit the relevant environmental impact assessment report on specific potential impact on the environment by the construction works and the design plan of pollution preventing facilities for approval by the relevant government authorities. In this connection, we will engage a licensed environmental impact assessment consultant to assist us to prepare the environmental impact assessment report prior to our commencement of the construction works for the upgrading and/or expansion of our Wastewater Treatment Plants. For our provision of wastewater treatment services, we have duly obtained a pollutant discharge permit for each of our Wastewater Treatment Plants in accordance with the PRC law. As a wastewater treatment service provider and pursuant to the Concession Agreement, we are obliged to ensure the wastewater treated by our facilities meets the relevant discharge standards. For this purpose, we have implemented various quality control measures.

We have implemented measures in the operation of our business to ensure compliance with applicable requirements under the PRC environmental laws and regulations. During the Reporting Period, we had not received any claims or penalties for failing to comply with the relevant environmental-related licensing and environmental protection requirements.

Corporate Governance Compliance

At the corporate governance aspect, our Group complies with the requirements under the Listing Rules and the SFO for, among other things, the disclosure of information and corporate governance, and our Group has adopted the Model Code set out in Appendix 10 to the Listing Rules.

CORPORATE REORGANISATION

Our Company was incorporated with limited liability in Cayman Islands. The Shares of our Company were listed on the Main Board of the Stock Exchange with effect from 29 November 2018.

In connection with the Listing of the shares of our Company on the Stock Exchange, 250,000,000 new Shares of HK$0.01 each were issued at a price of HK$0.58 per Share for a total cash consideration, before expenses, of HK$145 million.

Upon the creation of our Company's share premium account as a result of the Share Offer, an amount of HK$7,499,000 standing to the credit of the share premium account of our Company has been capitalised on 29 November 2018 by applying such sum towards paying up in full at par a total of 749,900,000 ordinary shares for allotment and issue to the then existing Shareholders. Immediately following the completion of the Share Offer and the capitalisation issue, the total issued Shares of our Company was 1,000,000,000 Shares including the 250,000,000 Shares issued upon the Share Offer.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group's success also depends on the support from our employees, customers and suppliers.

Employees

Employees are regarded as important and valuable assets of our Group. The objective of our Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within our Group for career advancement.

The compensation package for our employees generally comprises basic wages, over-time work allowances, bonuses, retirement benefits and other staff benefits. We conduct annual review of the performance of our employees for determining the level of bonus, salary adjustment and promotion of our employees.

TYW has a labour union. During the Reporting Period, we have not experienced any strikes or other material labour disputes that have materially disrupted our operations. Our Directors believe that we have maintained a good working relationship with our employees.

Customers

Our largest major customer is Yinchuan Construction Bureau, a government authority of the PRC. Our Group provides professional and quality wastewater treatment service whilst maintaining long term profitability, business and asset growth.

Despite the fact that the most of our revenue has been contributed by our largest customer, Yinchuan Construction Bureau, and we only have one TOT project to operate and manage the Wastewater Treatment Plants under the Concession Agreement, our Directors believe that the reliance between us and Yinchuan Construction Bureau is mutual and complimentary in the manner that our customer also relies on our expertise, experience, funding capabilities and human resources we put into our operations to process wastewater generated in Yinchuan so as to facilitate the local government in achieving its goal in environmental protection and protect the livelihoods of the local communities. The sustainability of our business is further safeguarded by the fact that we have entered into the Concession Agreement with Yinchuan Construction Bureau for a fixed terms of 30 years. During such concession period, we shall have an exclusive right to operate and manage our Wastewater Treatment Plants to provide our wastewater treatment services with a pre-agreed tariff and a contractually guaranteed basic volume of wastewater applicable to our individual Wastewater Treatment Plants for the purpose of calculation of our wastewater treatment service fees which guarantees us a stable level of incoming cash flow, provided that we are able to deliver our wastewater treatment services up to the required standards.

Suppliers

During the Reporting Period, our principal suppliers were construction contractors, design institutes and supervision agencies engaged by us to carry out our contemplated upgrading and expansion works, suppliers of chemicals used in our wastewater treatment processes and suppliers of materials for equipment maintenance and replacements. We have been working with our major suppliers for periods ranging from one year to more than five years.

It is our general policy to maintain a list of approved suppliers in order to avoid over-relying on a single supplier. We have stable business relationships with our suppliers and they are familiar with our demand on quantity and requirements as to the quality of the materials and equipment required by us. During the Reporting Period, we were able to purchase or seek quotations or select the suppliers from multiple suppliers for each type of materials, equipment and services and we did not experience any shortage of our major materials, equipment and we do not anticipate any difficulties in this regard in the foreseeable future.

RESERVES

Details of movements in the reserves of our Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2018, save for the Reorganisation as discussed in the section headed "History, Reorganisation and Development" in the Prospectus, our Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

BANK BORROWINGS

Details of the bank borrowings of our Group as at 31 December 2018 are set out in note 22 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of our Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of our Company during the year are set out in note 21 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" in this report, no equity-linked agreements were entered into during the year ended 31 December 2018 or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to article 191 of the Articles of Association, subject to relevant laws, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of our Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

DIRECTORS

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

Non-Executive Director
Mr. Lim Chin Sean (Chairman)

Executive Director
Mr. Wong Kok Sun (Chief Executive Officer)

Independent Non-Executive Directors
Mr. Tan Yee Boon
Mr. Hew Lee Lam Sang
Mr. Tam Ka Hei Raymond

In accordance with the Articles of Association, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years and, being eligible, offer themselves for re-election for the forthcoming year. Mr. Lim Chin Sean and Mr. Wong Kok Sun will retire at the forthcoming AGM and will offer themselves for re-election.

CHANGE IN THE DIRECTOR'S INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

The change in the Director's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Hew Lee Lam Sang has been appointed as an independent non-executive director of Amalgamated Industrial Steel Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 2682) since 29 January 2019. And Mr. Hew Lee resigned as an independent non-executive director of Versatile Creative Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 4995) from 25 October 2018.

DIRECTORS' SERVICE CONTRACTS

Our executive Director has entered into a service contract with our Company for an initial term of one year, and each of our non-executive Director and independent non-executive Directors has entered into a service contract with our Company for a fix term of three years, all of which are commenced from the Listing Date. All Directors are subject to retirement by rotation and re-election at AGM of the Company at least once every three years and until terminated by not less than three months' notice in writing served by either our Company or the respective Director.

No Directors has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration for the Directors and senior management comprises basic salary, retirement benefits and discretionary bonus. Details of the amount of emoluments of Directors paid for the year ended 31 December 2018 are set out in note 10 to the consolidated financial statements.

The scope of the remuneration of the senior management officers is as follows:

Remuneration bands	**Number of person(s)**
HK$0 to HK$500,000	1
HK$500,001 to HK$1,000,000	2

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

As at 31 December 2018, the interests and short positions of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or are required to be kept under Section 352 of the SFO or required to be notified to our Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long position in the Shares

Name of Director	Capacity/Nature of interest	Number of Shares held/ interested in	Approximate Percentage of interest
Mr. Lim Chin Sean (Note 1)	Interest held jointly with other persons; interest in a controlled corporation	750,000,000	75%

Note:

1. Sparkle Century Group Limited ("**Sparkle Century**") is wholly-owned by LGB Group (HK) Limited ("**LGB (HK)**"), which is owned as to 70%, 25% and 5% by LGB (Malaysia) Sdn. Bhd. ("**LGB (Malaysia)**"), Mr. Lim Chee Meng and Mr. Lim Chin Sean, respectively. LGB (Malaysia) is owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. Lim Chee Meng, Mr. Lim Chin Sean, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. As a result of the Concert Party Deed, Mr. Lim Chee Meng and Mr. Lim Chin Sean are deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

(ii) Long position in the ordinary shares of associated corporations

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares held/ interested in	Percentage of interest
Mr. Lim Chin Sean	Sparkle Century	Interest held jointly with other persons; interest in controlled corporation	2	100%
Mr. Lim Chin Sean	LGB (HK)	Interest held jointly with other persons; interest in a controlled corporation	15,000	100%
Mr. Lim Chin Sean	LGB (Malaysia)	Interest held jointly with other persons	6,080	60.8%

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of our Company had any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or are required to be kept under Section 352 of the SFO or required to be notified to our Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

On 4 October 2018, a share option scheme (the "**Share Option Scheme**") was approved and adopted by the Shareholders, under which, options may be granted to any Eligible Participants (as defined below) to subscribe for Shares subject to the terms and conditions stipulated in the Share Option Scheme. Our Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees.

The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group .

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine to the following persons (the "**Eligible Participants**"): (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries; (ii) any directors (including non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries; (iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries; and (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to our Group, the assessment criteria of which are: (a) contribution to the development and performance of our Group; (b) quality of work performed for our Group; (c) initiative and commitment in performing his/her duties; and (d) length of service or contribution to our Group.

The maximum number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Company) to be granted under the Share Option Scheme and any other share option scheme of our Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of the Shares in issue as at the Listing Date.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other scheme of our Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the total number of the Shares in issue for the time being. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting.

An offer for the grant of option must be accepted within seven days from the offer date. Options granted shall be taken up upon payment of HK$1.00 as consideration for the grant of option. Options may be exercised at any time from the date which option is deemed to be granted and accepted and expired on the date as the Board in its absolute discretion determine and which shall not exceeding a period of 10 years from the date on which the share options are deemed to be granted and accepted but subject to the provisions for early termination thereof contained in the Share Option Scheme.

The subscription price for the ordinary shares under the Share Option Scheme shall be determined by the Board and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share .

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from 4 October 2018.

No share option has been granted by our Company under the Share Option Scheme since its adoption up to the date of this annual report.

SUBSTANTIAL SHAREHOLDER'S INTERESTS

As at 31 December 2018, according to the register kept by our Company under Section 336 of the SFO, the corporations or persons (other than a Director or chief executives of our Company) had interests or short positions in the Shares or underlying Shares which fell to be disclosed to our Company under Divisions 2 and 3 of Part XV of the SFO were as follows:

(i) Interests in the Shares of our Company

Name	Capacity/Nature of interest	Number of Shares held/ interested in	Percentage of interest
Mr. Lim Chee Meng (Notes 1 & 2)	Interest held jointly with other persons; interest in a controlled corporation	750,000,000	75%
LGB (Malaysia) (Note 1)	Interest in a controlled corporation	750,000,000	75%
LGB (HK) (Note 1)	Interest in a controlled corporation	750,000,000	75%
Sparkle Century	Beneficial owner	750,000,000	75%
Ms. Lee Li May (Note 3)	Interest of spouse	750,000,000	75%
Ms. Cheong Sze Theng (Note 4)	Interest of spouse	750,000,000	75%

Notes:

1. LGB (Malaysia) beneficially owns 70% of the entire issued share capital of LGB (HK), which beneficially owns 100% of the issued share capital of Sparkle Century. As such, each of LGB (Malaysia) and LGB (HK) is deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

2. Sparkle Century is wholly-owned by LGB (HK), which is owned as to 70%, 25% and 5% by LGB (Malaysia), Mr. Lim Chee Meng and Mr. Lim Chin Sean, respectively. LGB (Malaysia) is owned as to 30.40%, 30.40%, 10.43%, 10.43%, 10.43%, 5.41% and 2.50% by Mr. Lim Chee Meng, Mr. Lim Chin Sean, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan (also known as Ms. Goay Sook Lan) and Ms. Lim Wang Ling, respectively. As a result of the Concert Party Deed, Mr. Lim Chee Meng and Mr. Lim Chin Sean are deemed, or taken to be, interested in all the Shares held by Sparkle Century for the purposes of the SFO.

3. Ms. Lee Li May is the spouse of Mr. Lim Chee Meng and is therefore deemed to be interested in 750,000,000 Shares in which Mr. Lim Chee Meng has, or is deemed to have, for the purpose of the SFO.

4. Ms. Cheong Sze Theng is the spouse of Mr. Lim Chin Sean and is therefore deemed to be interested in 750,000,000 Shares in which Mr. Lim Chin Sean has, or is deemed to have, for the purpose of the SFO.

Save as disclosed above, as at 31 December 2018, no other person (other than a Director or chief executives of our Company) had registered an interest or short position in the Shares or underlying Shares of our Company which fell to be disclosed to our Company under Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the related party transactions as disclosed in note 29 to the consolidated financial statements, there were no other transactions, arrangements or contracts of significance in relation to the business of our Group in which a Director or any of his connected entity was materially interested, whether directly or indirectly, subsisted at any time during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of our Group were entered into or existed during the year ended 31 December 2018.

RELATED PARTY TRANSACTIONS

The significant related party transactions that did not constitute connected transactions or continuing connected transactions under the Listing Rules made during the year ended 31 December 2018 were disclosed in note 29 to the consolidated financial statements.

COMPETING INTEREST

Saved as disclosed in this annual report, there were no Directors or their respective close associates had engaged in or had any interest in any business which, directly or indirectly, competes or may compete with the business of our Group as at 31 December 2018 or at any time during the year ended 31 December 2018.

DEED OF NON-COMPETITION

Each of LGB (Malaysia), Mr. Lim Chee Meng, Mr. Lim Chin Sean, Ms. Lim Shiak Ling, Ms. Lim Ai Ling, Ms. Lim Siew Ling, Ms. Geh Sok Lan, Ms. Lim Wang Ling, LGB (HK) and Sparkle Century (the "**Covenantors**") has entered into a deed of non-competition ("**Deed of Non-competition**") on 4 October 2018 with the Company, to the effect that each of them will not directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of our Group from time to time .

Our Company has received the annual confirmation of the Covenantors in respect of their compliance with the non-competition undertakings under the Deed of Non-competition during the year ended 31 December 2018. The independent non-executive Directors also reviewed the Covenantors' compliance with the non-competition undertakings.

The independent non-executive Directors confirmed that the Covenantors were not in breach of the non-competition undertakings during 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF OUR COMPANY'S SECURITIES

None of our Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the period from the Listing Date to 31 December 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

TAX RELIEF AND EXEMPTION

Our Company is not aware of any relief on taxation available to the Shareholders by reason of their holding of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

CORPORATE GOVERNANCE REPORT

The corporation governance report of our Group during the year ended 31 December 2018 is set out in the section headed "Corporate Governance Report" on pages 32 to 43 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, sales to our Group's five largest customers accounted for approximately 100% of our sales and sales to our Group's largest customer included therein accounted for approximately 99%.

During the year ended 31 December 2018, purchase from our Group's five largest suppliers accounted for approximately 68% of our total purchases and purchase from our Group's largest supplier included therein accounted for approximately 25%.

To the best knowledge of the Directors, none of the Directors, their close associates or any Shareholder (which to the knowledge of the Directors own more than 5% of the Shares in issue) had an interest in our Group's five largest customers or suppliers.

USE OF PROCEEDS FROM SHARE OFFER

The Shares of our Company were listed on the Main Board of the Stock Exchange on 29 November 2018 with net proceeds received by our Company from the Share Offer in the estimated amount of HK$104.7 million after deducting underwriting commissions and all related estimated expenses. As disclosed in the section headed "Initial Public Offering and Use of Proceeds" in the Management Discussion and Analysis, we have not utilised any of the net proceeds from the Share Offer as of 31 December 2018. The net proceeds received from the Share Offer are intended to be used in the manner consistent with that mentioned in the paragraph headed "Future Plans and Use of Proceeds" of the Supplemental Prospectus dated 14 November 2018.

Subsequent to 31 December 2018 and up to the date of this annual report, the net proceeds had been applied as follows:

USE OF NET PROCEEDS FROM THE SHARE OFFER

	Net proceeds (HK$ million)		
	Available	**Utilised**	**Unutilised**
Complete the contemplated upgrading and expansion works of existing facilities	83.9	23.6	60.3 (note 1)
Identification and evaluation of new wastewater treatment projects in Yinchuan and/or in other regions in the PRC	10.4	–	10.4 (note 2)
Establishing and future upgrading of centralised monitoring system	5.2	–	5.2 (note 3)
General working capital for general corporate purposes	5.2	0.8	4.4
Total	104.7	24.4	80.3

Notes:

1. As to approximately HK$60.3 million will be used to complete the contemplated upgrading and expansion works of our existing facilities by December 2020.

2. As to approximately HK$10.4 million will be used for the identification and evaluation of new wastewater treatment projects in PRC by October 2021. As at the date of this annual report, no new wastewater treatment project has been identified.

3. As to approximately HK$5.2 million will be used for establishing and future upgrading of a centralised monitoring system by December 2019.

As at the date of this annual report, the unutilised net proceeds from the Share Offer were deposited in the bank accounts of our Group with licensed banks in Hong Kong. The planned use of proceeds as stated in the Supplemental Prospectus were based on the best estimation and assumption of future market conditions and industry development made by our Company at the time of preparing the Supplemental Prospectus while the proceeds were applied based on the actual development of our Group's business and the industry. The Directors are not aware of any material change to the planned use of proceeds as of the date of this report.

SUBSEQUENT EVENTS

Save as disclosed in this annual report, there was no important event affecting our Group that had occurred since the end of 31 December 2018.

PUBLIC FLOAT

Our Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to our Company and within the knowledge of the Directors.

FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of our Group for the last four financial years is set out on page 120.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining the Shareholders' eligibility to attend and vote at the forthcoming AGM to be held on 27 June 2019 (Thursday) (the "**2019 AGM**"), the register of members of our Company will be closed from 24 June 2019 (Monday) to 27 June 2019 (Thursday), both days inclusive. During the closure period, no transfer of Shares will be registered. To be eligible to attend and vote at the 2019 AGM, all transfers accompanied by the relevant share certificates must be lodged with our Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 21 June 2019 (Friday) .

AUDITOR

The accompanying consolidated financial statements have been audited by PricewaterhouseCoopers who shall retire and, being eligible, offer themselves for re-appointment at the 2019 AGM. Having approved by the Board upon the recommendation of the Audit Committee, a resolution to re-appoint PricewaterhouseCoopers as the independent auditor of our Company and to authorise the Board to fix its remuneration will be proposed at the 2019 AGM.

On behalf of the Board

Lim Chin Sean
Chairman

Hong Kong, 25 March 2019

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

The Board has hereby submitted its Corporate Governance Report for 2018 to the Shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company is committed to maintain high standards of corporate governance to protect the interests of its Shareholders and to enhance corporate value and accountability. Our Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as contained in Appendix 14 to the Listing Rules as its own corporate governance code since the Listing Date. The Board has reviewed our Company's corporate governance practices and satisfied that our Company has complied with all the applicable code provisions of the CG Code throughout the period from the Listing Date to 31 December 2018 (the "**Relevant Period**").

The Board will examine and review, from time to time, our Company's corporate governance practices and operation in order to comply with the relevant provisions under the Listing Rules and to protect Shareholders' interests.

DIRECTORS' SECURITIES TRANSACTIONS

Our Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he has complied with the Model Code during the Relevant Period.

BOARD OF DIRECTORS

Composition

During the Relevant Period, the Board comprises five Directors and their respective roles were as follows:

Non-executive Director
Mr. Lim Chin Sean (Chairman)

Executive Director
Mr. Wong Kok Sun (Chief Executive Officer)

Independent Non-executive Directors
Mr. Tan Yee Boon
Mr. Hew Lee Lam Sang
Mr. Tam Ka Hei Raymond

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Save as disclosed therein, there is no relationship (whether financial, business, family or other material or relevant relationships) amongst members of the Board, senior management or substantial Shareholder or controlling Shareholder of our Company.

The composition of the Board is well balanced with each Director having extensive corporate and strategic planning experience, sound industry knowledge and/or professional expertise. The independent non-executive Directors were appointed on 4 October 2018 and are subject to retirement by rotation in accordance with the Articles of Association. All independent non-executive Directors have offered sufficient time and efforts to serve the business affairs of our Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinions. The Board believes that the ratio among executive Director and non-executive Directors is reasonable and appropriate. The Board also believes that the participation of independent non-executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all Shareholders and our Group are considered and safeguarded.

Role and Function

The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of our Group and to ensure the availability of resources as well as the effectiveness of its system of internal control and risk management.

Implementation and execution of the policies and strategies formulated by the Board and the daily operations are delegated from the Board to the management of our Company. In addition, an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**") and a nomination committee (the "**Nomination Committee**") have been set up to assist the Board in fulfilling certain responsibilities. Further details of these committees are set out in the paragraph headed "Board Committees" of this annual report.

Chairman and chief executive

Pursuant to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Currently, Mr. Lim Chin Sean, the Chairman, is responsible for managing our Group's business development and devising the business strategies. Mr. Wong Kok Sun, the Chief Executive Officer, is responsible for overseeing the overall operation of our Group.

Independence of Independent Non-executive Directors

Pursuant to the requirement of Rule 3.10 of the Listing Rules, our Company has appointed three independent non-executive Directors, two of whom has appropriate professional qualification in accounting and financial management expertise. Our Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to the requirements under Rule 3.13 of the Listing Rules. Based on such confirmation, the Company is of the view that all the Independent Non-executive Directors have met the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent.

Directors' and Officers' Liabilities Insurance

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

Board Meetings

The Board shall meet regularly to discuss the overall strategy, financial, internal and compliance controls, risk management and operating performance of our Group, in addition to the regular meetings for reviewing and approving our Group's annual and interim results. For those Directors who cannot attend these meetings in person, they can participate through electronic media.

The company secretary of our Company (the "**Company Secretary**") assists the chairman of the Board to prepare the agenda of the meetings and each Director may request to include any relevant matters on the agenda. Generally, at least 14 days' notice is given for the regular Board meetings by our Company. For other Board meetings, reasonable notices shall be given to all Directors. All substantive agenda items have comprehensive briefing papers, which are, in general, circulated three days before convening each Board meeting.

All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. Draft minutes of Board meetings and the Board committees meetings are circulated to all Directors for comment and approval as soon as practicable after the meetings. Minutes of Board meetings and Board committee meetings are kept by the Company Secretary. Should a matter being considered involve a potential conflict of interest of a Director, the Director involved in the transaction would be requested to leave the boardroom and/or abstain from voting. The matter would be discussed and resolved by other Directors. The Directors, upon reasonable request, may seek independent professional advice on issues related to our Group's business at our Company's expenses.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Director, non-executive Director and independent non-executive Directors has entered into a service contract with our Company for a specific term. Our executive Director has been initially appointed for a term of one year, and non-executive Director and independent non-executive Directors have been initially appointed for a term of three years, unless and until it is terminated by either our Company or such Director. The term of appointment of each Director is subject to retirement by rotation and re-election at AGM in accordance with the Articles and the Listing Rules.

Pursuant to the Articles, one-third of all Directors (whether executive or non-executive) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation and re-election at each AGM at least once every three years.

The Articles provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting of our Company or as an addition to the existing Board, shall hold office only until the next following AGM after his/her appointment and shall then be eligible for re-election.

Our Company may, in accordance with the Articles, by ordinary resolution remove any Director before the expiration of his/her term of office notwithstanding anything to the contrary in the Articles or in any agreement between our Company and such Director.

DIRECTORS' TRAINING

Code Provision A.6.5 of the CG Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remain informed and relevant.

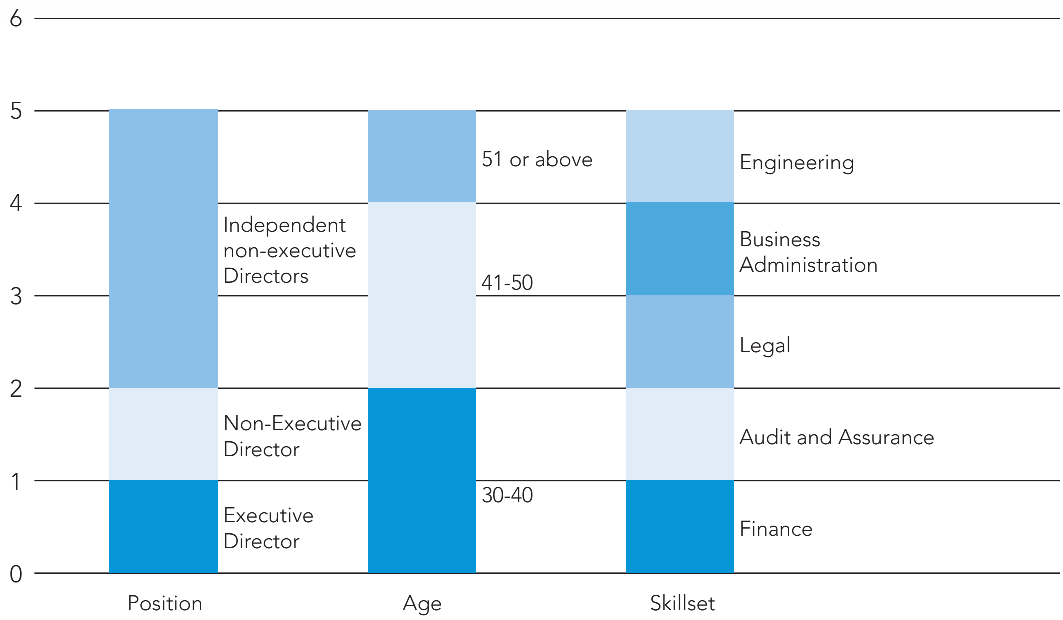
All Directors are encouraged to participate in continuous professional development activities by ways of attending training and/or reading materials relevant to our Company's business or to the Directors' duties and responsibilities. A summary of professional training received by Directors for the year ended 31 December 2018 according to the records provided by the Directors is as follows:

	Attending seminar(s)/ programme(s)/ conference(s) and/ or reading materials relevant to the business or directors' duties
Mr. Lim Chin Sean	√
Mr. Wong Kok Sun	√
Mr. Tan Yee Boon	√
Mr. Hew Lee Lam Sang	√
Mr. Tam Ka Hei Raymond	√

BOARD DIVERSITY POLICY

On 4 October 2018, the Board adopted a board diversity policy (the "**Board Diversity Policy**") setting out the approach to achieve diversity on the Board. Our Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Directors' appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board. The above measurements will be reviewed and considered when the Nomination Committee reviewed the composition of the Board.

An analysis of the current Board composition based on the range of diversity perspectives is set out as follows:



Each of the Board members possessed different skillset, including engineering, business administration, legal, audit and assurance and finance. The Board is characterised by significant diversity in terms of age and skillset.

NOMINATION POLICY

The Board has adopted a director nomination policy (the "**Nomination Policy**") on 21 February 2019 setting out the principles which guide the Nomination Committee to identify and evaluate a candidate for nomination to (i) the Board for appointment or (ii) Shareholders for election, as a Director. In evaluating and selecting any candidate for directorship, the Nomination Committee shall consider a number of factors, including but not limited to, the candidates' skills, knowledge, experience and professional expertise, independence, diversity on the Board, character and integrity, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of our Company.

The Board has the relevant procedures for Directors' nomination which are pursuant to the Listing Rules and the Articles. The details are set out in the sections headed "Appointment, Re-election and Removal of Directors" and "Shareholders' Rights".

DIVIDEND POLICY

The Board has adopted a dividend policy on 21 February 2019 in recommending dividends, to allow the Shareholders to participate in our Company's profits and for our Company to retain adequate reserves for future growth. In recommending or declaring dividends, our Company shall maintain adequate and sufficient cash reserves for meeting its working capital requirements and future growth as well as the Shareholders value. Our Company does not have any pre-determined dividend payout ratio and there can be no assurance that dividends will be paid in any particular amount, if at all, for any given period.

The Board has the full discretion to declare and distribute dividends to the Shareholders, subject to the Articles of Association, all applicable laws and regulations, by taking into account a number of factors, including but not limited to, (i) our Company's actual and expected financial performance; (ii) retained earnings and distributable reserves of our Group; (iii) the level of our Group's debts to equity ratio, return on equity and the relevant financial covenants; and (iv) the general economic conditions, business cycle of our Group's business and other internal and external factors that may have an impact on the business or financial performance and position of our Company.

Any final dividend for a financial year will be subject to Shareholders' approval. The dividend policy and the declaration and/or payment of dividends are subject to the Board's continuing determination that the dividend policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee with specific terms of reference.

Audit Committee

The Audit Committee was established on 4 October 2018 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C.3 of the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control system and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of one non-executive Director, namely Mr. Lim Chin Sean, and two independent non-executive Directors, namely Mr. Hew Lee Lam Sang and Mr. Tam Ka Hei Raymond. Mr. Hew Lee Lam Sang currently serves as the chairman of the Audit Committee. Although our Company was listed on 29 November 2018, one Audit Committee meeting has been held during the year to review and discuss the audited financial statements for the three financial years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018 together with the accountant's report on financial information of our Group with recommendations to the Board for approval.

Subsequent to 31 December 2018 and up to the date of this annual report, a meeting of Audit Committee was held on 25 March 2019 and has, among other things, reviewed the audited financial statements for the year ended 31 December 2018 with recommendations to the Board for approval, discussed the accounting policies and practices which may affect our Group and reviewed the internal control and risk management systems of our Group. The report prepared by the external auditor covering major findings in the course of the audit and the accounting and financial reporting matters.

Remuneration Committee

The Remuneration Committee was established on 4 October 2018 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B.1 of the CG Code. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations to the Board on the remuneration packages of individual Directors and senior management and on other employee benefit arrangements.

The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Tan Yee Boon, Mr. Tam Ka Hei Raymond and Mr. Hew Lee Lam Sang. Mr. Tan Yee Boon currently serves as the chairman of the Remuneration Committee. Although our Company was listed on 29 November 2018, one Remuneration Committee meeting has been held during the year to review and make recommendations to the Board regarding the fees of executive Director, non-executive Director and independent non-executive Directors.

Subsequent to 31 December 2018 and up to the date of this annual report, a meeting of Remuneration Committee was held on 25 March 2019 to review and consider, among other things, the performance of the Directors and senior management of our Company and reviewed and recommended the remuneration policy and structure relating to the Directors and senior management of our Company to the Board.

Nomination Committee

The Nomination Committee was established on 4 October 2018 with written terms of reference in compliance with paragraph A.5 of the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on appointments of our Directors, to assess the independence of the independent non-executive Directors, to review the time commitment required of the Directors and to evaluate whether the Directors have committed adequate time to discharge their responsibilities to review and implement the Nomination Policy and to consider related matters.

The Nomination Committee consists of one non-executive Director, namely Mr. Lim Chin Sean, and two independent non-executive Directors, namely Mr. Tam Ka Hei Raymond and Mr. Tan Yee Boon. Mr. Lim Chin Sean currently serves as the chairman of the Nomination Committee. Although our Company was listed on 29 November 2018, one Nomination Committee meeting has been held during the year to adopt the Board Diversity Policy.

Subsequent to 31 December 2018 and up to the date of this annual report, a meeting of Nomination Committee was held on 25 March 2019 to review and consider, among other things, the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the balance of expertise, skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the requirements of the business of our Group and other relevant statutory requirements and regulations. Further, pursuant to the Board Diversity Policy and the Nomination Policy, the Nomination Committee, when reviewing the composition of the Board, will have regard to the diversity of the Board, which includes gender, age, cultural and educational background, length of service, skills, knowledge and professional experience of the Board. Our Company recognises and embraces the benefits of diversity of Board members.

Attendance Records of Meetings

The attendance of each Director at Board meetings, Audit Committee meeting, Remuneration Committee meeting, Nomination Committee meeting and general meeting during the year is set out in the following table:

	Board Meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting
Number of meetings held during the year	3	1	1	1	Nil
Name of Directors	**Number of meetings attended/Number of meetings entitled to attend**				
Non-executive Director					
Mr. Lim Chin Sean *(Chairman)*	3/3	1/1	–	1/1	Nil
Executive Director					
Mr. Wong Kok Sun	3/3	–	–	–	Nil
Independent non-executive Directors					
Mr. Tan Yee Boon	2/2[Note]	–	1/1	1/1	Nil
Mr. Hew Lee Lam Sang	2/2[Note]	1/1	1/1	–	Nil
Mr. Tam Ka Hei Raymond	2/2[Note]	1/1	1/1	1/1	Nil

Note: The Company has held one Board meeting before the appointment of Mr. Tan Yee Boon, Mr. Hew Lee Lam Sang and Mr. Tam Ka Hei Raymond as independent non-executive Directors.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in code provision D.3.1 of the CG Code, namely: (i) to develop and review our Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor our Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and (v) to review our Company's compliance with the CG Code and disclosure in the corporate governance report in our Company's annual report.

COMPANY SECRETARY

Ms. Tsui Sum Yi from Corporate Services of Vistra (Hong Kong) Limited, an external service provider, has been engaged by our Company as our Company Secretary to support the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed.

The primary contact person of the Company is Mr. Wong Kok Sun, the executive Director and Chief Executive Officer of our Company. Ms. Tsui has confirmed that she has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility in maintaining a sound and effective internal control and risk management systems for our Group to safeguard Shareholders' investments and assets of our Company at all times.

Our Company has established a set of comprehensive risk management policies and measures to identify, evaluate and manage risks arising from our operations.

The processes used to identify, evaluate and manage significant risks by our Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect our Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact and consequence on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Control procedures have been designed to safeguard assets against misappropriation and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

Our Board is responsible for the risk management and internal control systems of our Company and reviewing their effectiveness. The Board oversees the overall risk management of our Group and endeavours to identify, control impact of the identified risks and facilitate implementation of coordinated mitigating measures. The risk management and internal control systems of our Company are designed to manage rather than eliminate the risk of failures to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Our Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within our Group in light of the size, nature and complexity of our Group's business. It was decided that the Board would be directly responsible for internal control of our Group and for reviewing its effectiveness.

The Board has engaged an external professional service firm as its risk management and internal control review adviser (the "**Adviser**") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2018. Such review is conducted annually and cycles reviewed are under rotation basis. The Adviser has reported findings and areas for improvement to the Audit Committee and management. The Board and the Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser are properly followed up by our Group to ensure that they are implemented within a reasonable period of time. The Board therefore considered that the risk management and internal control systems are effective and adequate.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

Our Company has appointed external professional advisors (including the compliance adviser, legal and other advisors) for provision of professional advice on how we observe all applicable related laws and regulations.

Our professional advisors and our Company assess the likely impact of any unexpected and significant event that may have on the price of the Shares or their trading volume and decides whether the relevant information is considered to be inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO. Executive Director and Company Secretary may also have responsibility for approving certain announcements and/or circulars to be issued by the Company under powers delegated by the Board from time to time.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of our Company for the year ended 31 December 2018 and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements.

The statement of the external auditor of our Company with regard to their reporting responsibilities on our Company's consolidated financial statements, is set out in the Independent Auditor's Report on pages 48 to 53 of this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause our Company not to continue as a going concern. Therefore, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

AUDITOR'S STATEMENT

For the year ended 31 December 2018, services provided to our Group by its external auditor, PricewaterhouseCoopers, and the respective fees paid were:

	2018 HK$'000
Audit services	1,600
Other services include the reporting accountant's work in connection on with the initial public offering of our Company	4,800
	6,400

SHAREHOLDERS' RIGHTS

The general meetings of our Company provide an opportunity for communication between the Shareholders and the Board. Subject to provisions of the applicable laws in the Cayman Islands and the Listing Rules, the Articles require that an AGM to be held each year and at the venue as determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Pursuant to article 64 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of our Company carrying the right of voting at general meetings of our Company shall at all times have the right, by depositing a written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two (2) months after the deposit of such requisition . If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by our Company.

Pursuant to article 113 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Company's principal place of business in Hong Kong (as shown below) provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Shareholders may at any time put forward their enquiries (including the procedures for putting forward proposals at general meetings of our Company) to the Board in writing at whose contact details as follows:

TIL Enviro Limited
Room 1603, 16/F
China Building, 29 Queen's Road Central
Central, Hong Kong

Tel No.: (852) 2543 0633
Fax No.: (852) 2543 9996

CORPORATE COMMUNICATION AND INVESTOR RELATIONS

The major task and objective of our Group's investor relations is to clearly introduce our Group, including the business positioning, existing operations and future development of our Group, to the media, Shareholders, investors, analysts and investment banks through different communication channels. Our Company has maintained a corporate website at www.tilenviro.com through which our Company's updated financial information, business development, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the Shareholders and investors.

Our Company believes that good investors relation may help build more stable and consolidated shareholder base. As a result, our Company has been and will be dedicated to maintaining a higher degree of transparency, observing the Listing Rules and timely providing investors with comprehensive and accurate information, and constantly performing the obligation of the listed company on information disclosure.

The AGM also provides an important opportunity for constructive communication between the Board and Shareholders. The chairman and other members of the Board are present at the AGM to answer questions raised by the Shareholders. The annual report together with AGM circular is distributed to Shareholders at least 20 clear business days before the AGM.

CONSTITUTIONAL DOCUMENTS

Our Company adopted an amended and restated Memorandum and Articles of Association on 4 October 2018. The Memorandum and Articles of Association have been published at the websites of the Stock Exchange and our Company. Save as disclosed above, no other amendments have been made to our Company's Memorandum and Articles of Association during the Relevant Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORT

As required by the Listing Rules, our Company is required to report ESG information of our Group on an annual basis and regarding the same period covered in this annual report. Our Company will publish the ESG report on the websites of our Company and the Stock Exchange within 3 months after the publication of this annual report.

Chairman and Non-Executive Director

Mr. Lim Chin Sean, aged 37, was appointed as a Director on 17 April 2018, and re-designated as the chairman of the Board and a non-executive Director on 11 May 2018. He is also a director of various subsidiaries of our Group. Mr. Lim is responsible for the strategic development and providing advice on the operations and management of our Group. He is also the chairman of our Nomination Committee and a member of our Audit Committee.

Mr. Lim has been appointed as a non-independent non-executive director of Taliworks Corporation Berhad (which is listed on the Main Market of Bursa Malaysia Securities Berhad) (Stock Code: 8524) since 23 May 2011. Mr. Lim together with Mr. Lim Chee Meng (and their other family members) are the controlling shareholders of Taliworks Corporation Berhad (which previously owned the equity interest of the operating subsidiaries of our Group prior to its disposal of the entire interest in our Group in May 2016).

Mr. Lim joined LGB Group in Malaysia from September 2003. His work experience includes construction and engineering, business analyst, information technology and property development in LGB Group in Malaysia. He is responsible for merger and acquisition activities. Mr. Lim has worked in several IT companies and was instrumental in setting up various business including data centre, network infrastructure and business applications, etc. He is also a board member of several property companies, and his role includes daily operations in property development and investments covering across Malaysia, Singapore, Australia, the United Kingdom and Japan. He was appointed as a non-independent non-executive director of Amalgamated Industrial Steel Berhad (which is listed on the Main Market of Bursa Malaysia Securities Berhad) (Stock Code: 2682) on 26 September 2007, and re-designated as an executive director on 23 November 2016.

Mr. Lim obtained a bachelor's degree in Computer System Engineering from the University of Kent, the United Kingdom in July 2003.

Executive Director

Mr. Wong Kok Sun, aged 46, was appointed as a Director on 11 May 2018, and re-designated as an executive Director on 11 May 2018. He joined our Group as the chief executive officer in May 2012. Mr. Wong is primarily responsible for overall strategic planning and supervising daily operation of our Group. He has accrued abundant experience in wastewater treatment business in the PRC through working in our Group since 2012 and, in particular, led the management and operation of our principal operating subsidiary, TYW, since its early stage of development. He is also a director of various subsidiaries of our Group.

Prior to joining our Group, Mr. Wong was the representative of Beijing Representative Office of Orient Resource Holdings Limited (a company listed on the Australian Stock Exchange Limited) (Stock Code: ORH) which is primarily engaged in extraction of minerals from tailings, since October 2005. From April 2002 to September 2004, he acted as an executive director of Aptus Holdings Limited (問博控股有限公司) (a company listed on the GEM of the Stock Exchange) (Stock Code: 8212).

He obtained a bachelor's degree in Business Administration from the Western Michigan University, the United States of America in April 1996 and a master's degree of Business Administration from Tsinghua University, the PRC in May 2011.

Independent Non-executive Directors

Mr. Tan Yee Boon (陳于文), aged 43, was appointed as an independent non-executive Director on 4 October 2018. He is responsible for supervising and providing independent judgement to our Board. Mr. Tan is also the chairman of our Remuneration Committee and a member of our Nomination Committee.

Mr. Tan has been an independent non-executive director of Protasco Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 5070) since January 2013, Central Industrial Corporation Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 8052) since June 2015, China Dynamics (Holding) Limited (which is listed on the Main Board of the Stock Exchange) (Stock Code: 476) since June 2016 and Binasat Communication Berhad (which is listed on the ACE Market of Bursa Malaysia Berhad) (Stock Code: 0195) since June 2017. Mr. Tan was an independent non-executive director of Earnest Investments Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 339), from June 2009 to May 2017. In addition, he was a non-executive director of Worldgate Global Logistic Limited, the shares of which are listed on the GEM of the Stock Exchange (Stock Code: 8292), from March 2016 to May 2018.

He was admitted as an advocate and solicitor of the High Court of Malaya in November 1999. He was the founder and has been a partner of Messrs. David Lai & Tan, a firm of advocates and solicitors in Malaysia since May 2013. He is currently practicing as an advocate and solicitor of the High Court of Malaysia. In addition to his expertise in commercial and corporate disputes through his legal practice, Mr. Tan possesses extensive experience in restructuring, corporate finance, merger and takeovers, capital reduction and schemes of arrangement.

He obtained his bachelor's degree in laws from the University of South Wales (formerly known as University of Glamorgan), the United Kingdom in June 1997 and the Certificate of Legal Practice from the Legal Qualifying Board of Malaysia in November 1998.

Mr. Hew Lee Lam Sang, aged 55, was appointed as an independent non-executive Director on 4 October 2018. He is responsible for supervising and providing independent judgement to our Board. Mr. Hew Lee is also the chairman of our Audit Committee and a member of our Remuneration Committee.

Mr. Hew Lee qualified as a Certified Public Accountant in Malaysia since 1988 and has more than 32 years of experience in the auditing and business advisory profession with KPMG in Malaysia. Mr. Hew Lee was the head of the consulting practice of KPMG in Malaysia before he was elected to manage the whole advisory practice in Malaysia until his retirement from practice at the end of 2015. His vast experience includes external auditing, initial public offerings, review of financial forecast and projections, corporate restructuring, share valuation, corporate governance advisory and forensic investigations etc.

Mr. Hew Lee has been an independent non-executive director of Amalgamated Industrial Steel Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 2682) since 29 January 2019. Mr. Hew Lee was an independent non-executive director of Versatile Creative Berhad (which is listed on the Main Board of Bursa Malaysia Berhad) (Stock Code: 4995) from 30 August 2018 to 25 October 2018.

Mr. Hew Lee has been a member of Malaysian Institute of Certified Public Accountants since July 1988 and a member of Malaysian Institute of Accountants since March 1990.

Mr. Tam Ka Hei Raymond (譚家熙), aged 38, was appointed as an independent non-executive Director on 4 October 2018. He is responsible for supervising and providing independent judgement to our Board. Mr. Tam is also a member of each of our Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Tam has over 10 years of experience in corporate finance. He is currently an associate director of the corporate finance department at Yu Ming Investment Management Limited (''Yu Ming") (禹銘投資管理有限公司) and a licensed holder to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. Prior to joining Yu Ming in February 2011, Mr. Tam had gained solid corporate finance and accounting experience through his work experience with First Shanghai Capital Limited (第一上海融資有限公司), a company licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, and Ernst & Young.

He obtained his bachelor of arts degree in Accounting and Finance with Computing from University of Kent, the United Kingdom in July 2002.

SENIOR MANAGEMENT

The following table sets forth certain information of our senior management as at the date of this annual report:

Name	Age	Date of joining our Group	Position	Role and Responsibilities
Mr. Wong Sze Zue	45	12 December 2016	Financial controller	Overall financial management and accounting operations for our Group in the PRC
Mr. Han Ning (韓寧)	60	16 September 2013	General manager	Overall daily management and operations
Mr. Loke Guan Aik	37	1 June 2011	Deputy general manager	Assisting the general manger in daily management and operations

Mr. Wong Sze Zue, aged 45, joined our Group as our financial controller since 12 December 2016. He is responsible for the overall financial management and accounting operations for our Group in the PRC. He supervises a team of finance and accounting staff on the day-to-day financial and accounting matters.

Mr. Wong obtained his bachelor's degree of business from Royal Melbourne Institute of Technology, Australia in 1996. He is both a member of Malaysian Institute of Accountants and CPA Australia.

Mr. Han Ning (**韓寧**), aged 60, joined our Group as the general manager since 16 September 2013.

Mr. Han has gained more than 19 years of experience in the water and wastewater treatment industry. In particular, before joining our Group, he was appointed as an overseas project manager of ENV Water (Singapore) Pte. Ltd., responsible for projects in the PRC and other Southeast Asian countries.

Mr. Han obtained a bachelor's degree in Agricultural Machinery Engineering (農業機械工程) from Luoyang Institute of Agricultural Machinery (洛陽農業機械學院) (now known as Henan University of Science and Technology (河南科技大學), the PRC in July 1982 and a master's degree in Agricultural Machinery Design and Production (農機設計製造) from Jiangsu Institute of Technology (江蘇工學院) (now known as Jiangsu University (江蘇大學)), the PRC in June 1988. In addition, he obtained a professional qualification as an engineer of agricultural machinery (農機工程師) in the PRC in August 1991.

Mr. Loke Guan Aik, aged 37, joined our Group as a financial manager on 1 June 2011, and was appointed as a deputy general manager since December 2016.

From October 2004 to May 2011, Mr. Loke worked as a business development executive in Sungai Harmoni Sdn. Bhd., which is a wholly-owned subsidiary of Taliworks Corporation Berhad. He has over 14 years of working experience in finance, administrative and purchasing departments in wastewater treatment industries, and is primarily responsible for managing, operating and exploring business opportunities for our Group.

He obtained his bachelor of arts degree honours in Business Administration from the University of East London, the United Kingdom in March 2004.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TIL Enviro Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of TIL Enviro Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 54 to 119, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Recognition of revenue from wastewater treatment services and construction services under the terms of the service concession arrangement
- Assessment on carrying amounts of receivables and intangible assets under the service concession arrangement

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of revenue from wastewater treatment services and construction services under the terms of the service concession arrangement	
Refer to notes 2.7, 2.19, 4.1 and 5 to the consolidated financial statements. For the year ended 31 December 2018, the revenue from wastewater treatment services and construction services amounted to HK$142.7 million and HK$248.7 million respectively in respect of the service concession arrangement with the governmental authority of Yinchuan, the People's Republic of China under Transfer-Operate-Transfer arrangement (the "**service concession arrangement**"). During the service concession period, revenue from wastewater treatment services and construction services is recognised on a cost-plus basis. The operating margin and the construction margin adopted in the cost-plus model were determined by management, with the assistance of an independent external valuer, taking into account the margins adopted by comparable companies. We focus on this area due to the financial significance of the revenue recognised and the significant judgements and estimates made by management in determining the operating and construction margins for recognising revenue.	Our procedures in relation to management's recognition of revenue for wastewater treatment services and construction services under the terms of the service concession arrangement included: 1. Evaluating the competence, capabilities and objectivity of the management's external valuer; 2. Assessing and analysing the reasonableness of the operating margin and the construction margin adopted by management by holding discussions with management and external valuer, with the involvement of our valuation experts; and 3. Comparing the operating margin and the construction margin with margins adopted by comparable companies, with the involvement of our valuation experts. Based on our audit procedures performed, we found the significant judgements and estimates used by management in determining the operating margin and the construction margin were supported by audit evidence that we obtained.

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on carrying amounts of receivables and intangible assets under the service concession arrangement	
Refer to notes 2.6, 2.9, 4.1, 16 and 17 to the consolidated financial statements. As at 31 December 2018, the carrying amounts of receivables and intangible assets under the service concession arrangement amounted to HK$1,531.8 million and HK$66.5 million respectively, accounting for 80.9% of the Group's total assets. At initial recognition, the receivables and intangible assets under the service concession arrangement were determined based on the forecasted cash flows to be derived from the service concession arrangement, which involved significant judgements and estimates including, but not limited to, forecasted unit price of service fees from the governmental authority, operating costs and inflation rates. Subsequent to initial recognition, management periodically reassesses and reviews the key assumptions adopted. If the actual outcome and/or the revised forecasts significantly deviates from the assumptions adopted, the carrying amounts of the receivables and intangible assets recognised under the service concession arrangement would be adjusted. We focus on this area as management made significant judgements and estimates in determining the carrying amounts of the receivables and intangible assets.	Our procedures in relation to management's assessments of the carrying amounts of receivables and intangible assets recognised under service concession arrangement as at 31 December 2018 included: 1. Obtaining management's assessments and understanding the key assumptions adopted; 2. Assessing the reasonableness of the key assumptions adopted by comparing: • forecasted unit price of service fees, and operating costs to the historical financial data; and • inflation rates to the available market information; 3. Evaluating the historical accuracy of management's assessments by comparing the actual financial performance against forecasts used in the previous assessments; and 4. Testing the source data used in management's assessments to supporting evidence, on a sample basis, such as approved budgets, and considering the reasonableness of these budgets. Based on our audit procedures performed, we found the significant judgements and estimates made by management adopted in the assessments were supported by audit evidence that we obtained.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Hung Nam.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	**2018 HK$'000**	2017 HK$'000
Revenue	5	**492,505**	366,381
Cost of sales	8	**(316,390)**	(233,597)
Gross profit		**176,115**	132,784
Other income	6	**4,140**	2,847
Other gains/(losses), net	7	**5,423**	(3,083)
General and administrative expenses	8	**(36,937)**	(10,017)
Operating profit		**148,741**	122,531
Finance costs	11	**(43,646)**	(41,972)
Profit before income tax		**105,095**	80,559
Income tax expense	12	**(34,965)**	(21,659)
Profit for the year		**70,130**	58,900
Profit for the year attributable to:			
Owners of the Company		**69,996**	58,915
Non-controlling interests		**134**	(15)
		70,130	58,900
Earnings per share for profit attributable to owners of the Company			
— Basic and diluted (expressed in HK$ per share)	13	**0.26**	0.79

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**70,130**	58,900
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Currency translation differences	**(41,975)**	42,253
Reclassification of exchange reserve upon deregistration/disposal of subsidiaries	**(144)**	–
Total comprehensive income for the year	**28,011**	101,153
Total comprehensive income attributable to:		
Owners of the Company	**27,604**	101,409
Non-controlling interests	**407**	(256)
	28,011	101,153

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**1,810**	1,700
Receivable under service concession arrangement	16	**1,266,925**	1,153,512
Intangible assets	17	**66,457**	59,496
Restricted bank balances	20	**4,554**	4,785
Other non-current assets	26	**–**	46,143
		1,339,746	1,265,636
Current assets			
Inventories	18	**731**	364
Trade and other receivables	19	**72,389**	36,126
Receivable under service concession arrangement	16	**264,922**	251,359
Amounts due from fellow subsidiaries	29(b)	**–**	17,962
Financial assets at fair value through profit or loss	24	**–**	66,873
Restricted bank balances	20	**–**	6,580
Cash and cash equivalents	20	**296,897**	130,141
		634,939	509,405
Total assets		**1,974,685**	1,775,041
EQUITY			
Capital and reserves			
Share capital	21	**10,000**	–
Reserves		**687,800**	(7,769)
Retained earnings		**272,179**	202,183
		969,979	194,414
Non-controlling interests	26	**–**	(12,928)
Total equity		**969,979**	181,486

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	22	**685,176**	700,356
Deferred tax liabilities	25	**106,540**	90,371
		791,716	790,727
Current liabilities			
Trade and other payables	23	**128,149**	134,062
Tax payable		**6,361**	–
Amount due to LGB Group (HK) Limited	29(c)	**–**	595,739
Amount due to a fellow subsidiary	29(b)	**–**	4,780
Amounts due to related companies	29(b)	**–**	146
Current portion of long-term borrowings	22	**66,526**	48,960
Short-term borrowings	22	**11,954**	19,141
		212,990	802,828
Total liabilities		**1,004,706**	1,593,555
Total equity and liabilities		**1,974,685**	1,775,041
Net current assets/(liabilities)		**421,949**	(293,423)
Total assets less current liabilities		**1,761,695**	972,213

The consolidated financial statements on pages 54 to 119 were approved by the Board of Directors on 25 March 2019 and were signed on its behalf.

Wong Kok Sun
Director

Lim Chin Sean
Director

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Group							
	Share capital HK$'000	Share premium HK$'000	Exchange reserves HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	–	–	(50,264)	1	143,268	93,005	(12,672)	80,333
Profit for the year	–	–	–	–	58,915	58,915	(15)	58,900
Other comprehensive income	–	–	–	–	–	–	–	–
Currency translation differences	–	–	42,494	–	–	42,494	(241)	42,253
At 31 December 2017	**–**	**–**	**(7,770)**	**1**	**202,183**	**194,414**	**(12,928)**	**181,486**
Profit for the year	**–**	**–**	**–**	**–**	**69,996**	**69,996**	**134**	**70,130**
Other comprehensive income								
Currency translation differences	**–**	**–**	**(42,248)**	**–**	**–**	**(42,248)**	**273**	**(41,975)**
Deregistration of a subsidiary	**–**	**–**	**(144)**	**–**	**–**	**(144)**	**–**	**(144)**
Transactions with owners in their capacity as owners								
Disposal of subsidiaries (Note 32)	**–**	**–**	**(1,291)**	**30,506**	**–**	**29,215**	**12,521**	**41,736**
Issuance of shares pursuant to the Reorganisation (Note 21(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Capitalisation of amount due to LGB (HK) (Note 21(c))	**1**	**590,960**	**–**	**–**	**–**	**590,961**	**–**	**590,961**
Capitalisation issue of shares (Note 21(e))	**7,499**	**(7,499)**	**–**	**–**	**–**	**–**	**–**	**–**
Shares issued pursuant to the Share Offer (Note 21(f))	**2,500**	**142,500**	**–**	**–**	**–**	**145,000**	**–**	**145,000**
Listing expenses charged to share premium (Note 21(f))	**–**	**(17,215)**	**–**	**–**	**–**	**(17,215)**	**–**	**(17,215)**
At 31 December 2018	**10,000**	**708,746**	**(51,453)**	**30,507**	**272,179**	**969,979**	**–**	**969,979**

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	27(a)	**(56,623)**	35,709
Income tax paid		**(6,747)**	–
Net cash (used in)/generated from operating activities		**(63,370)**	35,709
Cash flows from investing activities			
Purchases of property, plant and equipment		**(638)**	(736)
Proceeds from disposal of property, plant and equipment		**–**	8
Additions of financial assets at fair value through profit or loss		**–**	(35,889)
Proceeds from the disposals of financial assets at fair value through profit or loss		**64,661**	31,104
Interest received		**1,124**	641
Net cash generated from/(used in) investing activities		**65,147**	(4,872)
Cash flows from financing activities			
Proceeds from borrowings		**90,372**	47,254
Repayments of borrowings		**(56,613)**	(43,564)
Interest paid		**(43,646)**	(42,108)
Issuance of shares		**145,000**	–
Payment for professional fee in connection with initial public offerings capitalised to equity		**(17,215)**	–
Changes in amount due to LGB Group (HK) Limited		**54,374**	55,397
Net cash generated from financing activities	27(b)	**172,272**	16,979
Net increase in cash and cash equivalents		**174,049**	47,816
Cash and cash equivalents at beginning of year		**130,141**	80,214
Currency translation differences		**(7,293)**	2,111
Cash and cash equivalents at end of year	20	**296,897**	130,141

The notes on pages 60 to 119 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION AND REORGANISATION

1.1 General Information

TIL Enviro Limited (the "**Company**") was incorporated in the Cayman Islands on 17 April 2018 as an exempted company with limited liability. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108.

The ultimate holding company is LGB (Malaysia) Sdn Bhd ("**LGB (Malaysia)**"), a private limited liability company incorporated in Malaysia.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") are principally engaged in the wastewater treatment business in the People's Republic of China (the "**PRC**").

Prior to the incorporation of the Company and the completion of a Reorganisation in preparation for the listing of the Company's share on the Main Board of The Stock Exchange of Hong Kong Limited ("**the Main Board**"), the business was carried out by Taliworks International Limited ("**TIL**") and its subsidiaries. The Reorganisation was completed on 10 May 2018 and since then, the Company became the holding company of the other companies now comprising the Group.

The Company's shares were listed on the Main Board on 29 November 2018.

These consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated.

1.2 Reorganisation

Prior to the incorporation of the Company and the group reorganisation (the "**Reorganisation**", as explained below), the business was carried out by TIL and its subsidiaries. In preparation for the initial public offering and listing of shares of the Company on the Main Board (the "**Listing**"), the Group underwent the Reorganisation as follows:

(i) Sparkle Century Group Limited ("**Sparkle Century**") was incorporated in the British Virgin Islands ("**BVI**") as a limited liability company on 6 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each and one share was issued and allotted, credited as fully paid, to LGB Group (HK) Limited ("**LGB (HK)**").

(ii) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 April 2018. As at the date of incorporation, the Company has an authorised share capital of HK$380,000 divided into 38,000,000 shares with a par value of HK$0.01 each. At the time of incorporation, one nil paid share was issued and allotted to an initial subscriber and was subsequently transferred to Sparkle Century, while Sparkle Century was wholly-owned by LGB (HK).

1 GENERAL INFORMATION AND REORGANISATION *(continued)*

1.2 Reorganisation *(continued)*

(iii) White Empire Group Limited ("**White Empire**") was incorporated in BVI as a limited liability company on 12 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 9 May 2018, one ordinary share with a par value of US$1 of White Empire, representing the then entire issued share capital of White Empire, was issued and allotted to the Company at par and credited as fully paid.

(iv) On 11 April 2018, TIL (as vendor) and LGB (HK) (as purchaser) entered into a sale and purchase agreement pursuant to which, TIL agreed to sell and LGB (HK) agreed to purchase 70% equity interest held by TIL in Taliworks Eco Pte Ltd ("**TECO**"). As consideration, LGB (HK) agreed to pay TIL SG$1 as cash consideration (which was determined by the parties with reference to the net loss position of TECO); and assume absolutely and unconditionally all liabilities of TECO owed to TIL by entering into a deed of novation on the same day with TIL and TECO. The transactions were properly and legally completed and settled on 11 April 2018, following which TECO and its subsidiary ceased to be subsidiaries of TIL.

(v) On 10 May 2018, White Empire (as purchaser), LGB (HK) (as vendor), the Company, Sparkle Century, and TIL entered into a sale and purchase agreement, pursuant to which, LGB (HK) agreed to transfer the entire issued share capital of TIL to White Empire. In consideration for such transaction, as directed by LGB (HK) and procured by White Empire, (a) White Empire agreed to issue and allot one ordinary share, credited as fully paid, to the Company; (b) the Company agreed to credit one nil-paid share held by Sparkle Century as fully paid; (c) the Company agreed to issue and allot 9,999 shares, all credited as fully paid, to Sparkle Century; (d) Sparkle Century agreed to issue and allot one ordinary share, credited as fully paid, to LGB (HK); and (e) the Company agreed to assume the debt owed by TIL to LGB (HK) prior to the transaction. On the same day, TIL, the Company and LGB (HK) entered into a deed of novation for assumption of the aforesaid debt of TIL, following which the aforesaid debt became due from the Company to LGB (HK). The transactions were properly and legally completed and settled on 10 May 2018, following which TIL became wholly-owned by White Empire.

After the completion of the Reorganisation, the Company became the holding company of the other companies comprising the Group.

2 SUMMARY OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Company Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the valuation of financial assets at fair value through profit or loss, which have been measured at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 Amendments to standards and improvements adopted in 2018

In 2018, the Group has adopted the following amendments to standards which are relevant to its operations:

HKFRSs Annual Improvements	2014–2016 Cycle
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
HKAS 40 (amendments)	Transfers of Investment Property
Interpretation 22	Foreign Currency Transactions and Advance Consideration

The adoption of these new standards and amendments to standards did not have any impact on the consolidated financial statements or result in any significant changes in the Group's significant accounting policies.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.2 Standards, amendments to standards and interpretation which are not yet effective

The following new standards and amendments to existing standards have been issued and are mandatory for the Group's accounting periods beginning after 1 January 2019 and later periods and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements 2015–2017 Cycle	Improvements to HKFRSs	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

The Group has already commenced an assessment of the related impact to the Group of the above standards and amendments that are relevant to the Group upon initial application. According to the preliminary assessment made by the management of the Company, the directors do not anticipate any significant impact on the Group's financial positions and results of operations except as disclosed below.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.2 Standards, amendments to standards and interpretation which are not yet effective *(continued)*

HKFRS 16, "Leases"

HKFRS 16 specifies how an entity will recognise, measure, present and disclose leases. HKFRS 16 is mandatory for the Group's financial statements for annual periods beginning on or after 1 January 2019. The Group currently plans to adopt this new standard on 1 January 2019.

The new standard provides a single, on balance sheet lease accounting model for lessees. It will result in almost all leases being recognised by the lessee on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under HKFRS 16, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. In addition, the nature of expenses related to those leases will now change as HKFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The combination of a straight-line depreciation of the right-of-use asset and effective interest rate method applied to the lease liability results in a decreasing "total lease expense" over the lease term. In the initial years of a lease, the new standard will result in an aggregate expense which is higher than the straight-line operating lease expense typically recognised under the current standard, and a lower expense after the mid-term of the lease as the interest expense reduces. The Group's profit after tax for a particular year may be affected negatively or positively depending on the maturity of the Group's overall lease portfolio in that year.

As a lessee, the Group can either apply the standard using a full retrospective approach, or a modified retrospective approach with optional practical expedients.

The Group is considering to elect the modified retrospective approach upon the initial adoption. Under the modified retrospective approach, (i) comparative information for prior periods is not restated; and (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 January 2019.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$439,000. The Group expects that the adoption of HKFRS 16 as compared with the current accounting policy would not result in significant impact on the Group's assets and liabilities. Upon the adoption of HKFRS 16, the Group will recognise a liability reflecting these future lease payments and right-of-use assets, unless the underlying asset is of low value or they are short-term leases, in its consolidated statement of financial position. However, the Group does not expect a significant impact on operating performance, except for the recognition of depreciation expenses of the related right-of-use assets and interest expenses on the lease liability in the consolidated income statement, instead of operating lease expenses.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries

2.2.1 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations under acquisition accounting

The acquisition method of accounting is used to account for business combination by the Group other than business combination under common control. The consideration transferred for the acquisition of a subsidiary or business is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated income statement as a bargain purchase.

(ii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to the consolidated income statement or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performances of the operating segments, has been identified as the management that make strategic decisions.

2.4 Foreign Currency Translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated income statement. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement, within "Finance costs". All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within "Other gains/(losses), net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.4 Foreign Currency Translation *(continued)*

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated to write off the cost to their residual value on a straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

Furniture, fixtures and equipment	20%–33%
Motor vehicles	10%–25%
Computer equipment	20%–33.3%

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses), net" in the consolidated income statement.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.6 Intangible Assets

(i) Service concession right

Service concession right is initially recognised at fair value of the consideration paid and subsequently stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation of service concession right is calculated to write off their costs on a straight-line basis over the term of operation until September 2041. Both remaining period and method of amortisation are reviewed at each finance reporting date.

(ii) Computer softwares

The intangible assets are measured initially at cost, and subsequently amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses.

(iii) Goodwill

Goodwill is measured as described in note 2.2. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

2.7 Service Concession Arrangement

The Group has entered into a service concession arrangement with a governmental authority (the "**Grantor**"). The service concession arrangement is a Transfer-Operate-Transfer (the "**TOT**") arrangement. Under the TOT arrangement, the Group pays consideration for the right from the Grantor to operate the wastewater and recycle water treatment plants that have been built and receives in return a right to operate the service project concerned for a specified period of time (the "**Service Concession Period**") in accordance with the pre-established conditions set by the Grantor, and the service project should be transferred to the Grantor at zero consideration at the end of the Service Concession Period. Furthermore, the Group is required to complete certain upgrading and expansion works within the prescribed timelines as specified or approved by the Grantor.

The Group is generally entitled to use the facilities, while the Grantor controls and regulates the scope of service that the Group must provide with the facilities, and retains the beneficial entitlement to any residual interest in the facilities at the end of the Service Concession Period. The service concession arrangement is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the Grantor that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to restore the facilities to a specified level of serviceability at the end of the Service Concession Period and arrangements for arbitrating disputes.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.7 Service Concession Arrangement *(continued)*

(i) Consideration given by the Grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantor for the services rendered; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset is accounted for in accordance with the policy set out for "Financial assets" in note 2.9.

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

The financial asset and intangible asset are recognised at the relevant fair values of the consideration paid, and/or services rendered in connection with the TOT arrangement, which have been amounted for separately in the consolidated financial statements.

Gains arising from the excess of final outcome of the future cash flows over the estimates adopted in the service concession arrangement is presented in the consolidated income statement in the period in which they arise. When the final outcome of the future cash flows falls short of the estimates adopted, the Group tests the intangible asset for impairment, and assesses the expected credit losses associated with the receivable under service concession arrangement, in accordance with the policy set out in notes 2.8 and 2.9(c) respectively.

(ii) Construction and upgrade services

The fair value of the construction and upgrade services under the concession arrangement is calculated as the estimated total construction cost plus a profit margin. The profit margins are valued by an independent qualified valuer, based on prevailing market rate applicable to similar construction services rendered in similar location at date of agreement.

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.7 Service Concession Arrangement *(continued)*

(iii) Revenue relating to operating service

Revenue relating to operating service are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19. Costs for operating services are expensed in the period in which they are incurred.

(iv) Finance income

Finance income in relation to the service concession arrangement are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19.

(v) Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is to maintain the wastewater and recycle water treatment and water distribution plants it operates to a specified level of serviceability. These contractual obligations to maintain or restore the wastewater and recycle water treatment, except for upgrade element, are recognised as part of revenue under service concession arrangement, or as provision in accordance with note 2.17, where applicable.

2.8 Impairment of Non-financial Assets

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

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.9 Financial Assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in the consolidated income statement or the consolidated statement of other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) 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 the consolidated income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets are classified as current assets if expected to be settled within 12 months or in the normal operating cycle of the business, otherwise, they are classified as non-current.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.9 Financial Assets *(continued)*

(b) Measurement *(continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- 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 debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the consolidated income statement when the asset is derecognised or impaired. Interest income from these financial assets is included in "Other income" using the effective interest rate method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive is reclassified from equity to the consolidated income statement and recognised in "Other gains/(losses), net". Interest income from these financial assets is included in "Other income" using the effective interest rate method. Foreign exchange gains and losses are presented in "Other gains/(losses), net".

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in the consolidated income statement and presented net in the consolidated income statement within "Other gains/(losses), net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as "Other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "Other gain/(losses), net" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.9 Financial Assets *(continued)*

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through other comprehensive income and trade receivables and contract assets that contain significant financing component. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

— actual or expected significant adverse changes in external credit rating of the debtors

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

— actual or expected significant changes in the operating results of the borrower

— significant increases in credit risk on other financial instruments of the same borrower

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

2.10 Inventories

Inventories primarily represent chemicals and are stated at the lower of cost and net realisable value.

Cost, being cost of purchase, is determined on a first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.12 Share Capital

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

2.13 Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less after the end of the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings and Borrowing Costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

General and specific borrowing costs directly attributable to the acquisition, construction of production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use of sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.15 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at each of the reporting dates in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.15 Current and Deferred Income Tax *(continued)*

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee Benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central retirement benefit scheme operated by the local municipal or provincial government. The subsidiaries in the PRC are required to contribute a percentage of their payroll costs to the central retirement benefit scheme. The Group has no further payment obligations once the contributions have been paid.

(iii) Bonus plans

The Group recognises a provision where contractually obliged or when it prepares to declare discretionary bonus after evaluating employee performance as well as the financial performance of business units.

2.17 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.18 Dividends Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company and Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.19 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the services and sales of recycle water in the ordinary course of the Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each of the performance obligations based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.19 Revenue Recognition *(continued)*

(i) Rendering of wastewater treatment operation services

Revenue from wastewater treatment operation services is recognised over the period when the services are rendered and the Group's performance provides all of the benefits received and consumed simultaneously by the customer.

(ii) Recycle water supply operation services

Revenue from recycle water supply operation services is recognised at a point in time, when a Group entity has delivered water to the customer; the customer has accepted the water; the Group has present right to payment and the collection of the consideration is probable.

(iii) Revenue from wastewater treatment construction services

Revenue from wastewater treatment construction services is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Thus, the Group satisfies a performance obligation over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

(iv) Finance income

Finance income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Management fees

Management fees are recognised over the period when the services are rendered.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.20 Related Parties

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

(i) as control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

(c) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2 SUMMARY OF ACCOUNTING POLICIES *(continued)*

2.21 Contract Assets and Contract Liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The Group recognises a contract asset for the right to consideration in exchange for goods or services that the Group has transferred to a customer, and the amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the payments for customer exceeds the revenue recognised to date, then the Group recognises a contract liability for the difference.

The Group recognises the costs of obtaining a contract with a customer within contract assets if the Group expects to recover those costs.

Costs to fulfil a contract comprise the cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfil a contract are recorded in contract assets if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

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

(a) Market risk

(i) Foreign currency risk

The Group principally operates in the PRC with most of the transactions being settled in Renminbi ("**RMB**"), which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies. The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the United States dollars ("**US$**") (the "**Non-functional currency**").

Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional currency in which the group entities conducts business may affect the Group's financial position and results of operations. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial Risk Factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign currency risk (continued)

Sensitivity analysis

The sensitivity analysis includes Non-functional currency denominated monetary items and adjusts their translation at the year-end for a 1% change in Non-functional currency with all other variables held constant. For the year ended 31 December 2018, management considers that there are no significant foreign currency risk after the capitalisation of amount due to LGB (HK), which was primarily denominated in US$. For the year ended 31 December 2017, if Non-functional currency had strengthened/weakened by 1% against the respective functional currencies of group entities, the net profit for the year of the Group would decrease/increase by approximately HK$5,172,000.

(ii) Interest rate risk

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

The Group's interest rate risk primarily arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest risk which is partially offset by cash held at variable rates. The Group's interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the consolidated income statement as earned/incurred.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points at the end of the year and all other variables were held constant, the Group's profit after income tax would decrease/increase by approximately HK$3,501,000 for the year ended 31 December 2018 (2017: HK$4,702,000). The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represent management's assessment of a reasonably possible change in interest rate over the next twelve month period.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial Risk Factors *(continued)*

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Group's financial assets, which mainly comprise cash and cash equivalents and restricted bank balances, receivable under service concession arrangement, trade and other receivables, amounts due from fellow subsidiaries, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(i) Credit risk of cash and cash equivalents and restricted bank balances

To manage this risk arising from cash and cash equivalents and restricted bank balances, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(ii) Credit risk of receivable under service concession arrangement and trade receivables

For receivable under service concession arrangement and trade receivables, the customers are primarily local government's related entities and management considers the credit risk is not high. The Group maintains frequent communications with the counterparties. Management has closely monitored the credit qualities and the collectability of these receivables and consider that the expected credit risks of them are minimal in view of the history of cooperation with them. For details, please refer to notes 16 and 19.

(iii) Credit risk of other receivables and amounts due from fellow subsidiaries

Other receivables at the end of each reporting period were mainly guarantees placed at Social Security Bureau in accordance with local laws and regulations and rental deposits. The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party's ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party;
- significant changes in the expected performance and behavior of the third party, including changes in the payment status of the third party.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial Risk Factors *(continued)*

(b) Credit risk *(continued)*

(iii) Credit risk of other receivables and amounts due from fellow subsidiaries (continued)

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demand within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categories a loan or receivable for write off when a debtor fails to make contractual payments/repayable demanded greater than 120 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognise in the consolidated income statement.

Based on historical experience, majority of the other receivables and amounts due from fellow subsidiaries were settled within 12 months after upon maturity, hence the expected credit loss is close to zero.

The Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data.

No significant changes to estimation techniques or assumptions were made during the year.

(c) Liquidity risk

Liquidity risk relates to the risk that the Company or the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company and the Group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance and the Company's and the Group's operations and meet their short-term and long-term funding requirements. The Company and the Group rely on internally generated funding, borrowings and funding from shareholders as significant sources of liquidity.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial Risk Factors *(continued)*

(c) Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the reporting dates, based on the undiscounted contractual payments, were as follows:

	Less than 1 year or no fixed term of repayment HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2017					
Borrowings and interest thereon	122,386	109,242	355,940	513,140	1,100,708
Trade and other payable	133,635	6	–	–	133,641
Amount due to LGB (HK)	595,739	–	–	–	595,739
Amounts due to a fellow subsidiary	4,780	–	–	–	4,780
Amounts due to related companies	146	–	–	–	146
At 31 December 2018					
Borrowings and interest thereon	**83,403**	**70,191**	**254,177**	**398,720**	**806,491**
Trade and other payable	**128,149**	**–**	**–**	**–**	**128,149**

(d) Fair value measurements

(i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include receivable under service concession arrangement, restricted bank balances, cash and cash equivalents, trade and other receivables, amounts due from/to related companies, borrowings, and trade and other payables. The directors consider that the carrying amount of these financial assets and liabilities approximate their fair values at 31 December 2018 and 2017.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial Risk Factors *(continued)*

(d) Fair value measurements *(continued)*

(ii) Financial instruments measured at fair value

Fair value hierarchy

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets measured at fair value in the consolidated financial statements are grouped into the fair value hierarchy as follows:

Level 2	**2018** **HK$'000**	2017 HK$'000
Financial asset at fair value through profit or loss	**–**	66,873

There have been no transfers between any levels during the year.

3.2 Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged for the years ended 31 December 2018 and 2017.

The capital structure of the Group consists of net debt, which includes various types of borrowings, such as bank borrowings and amount due to LGB (HK), less cash and cash equivalents; and equity, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital Management *(continued)*

	2018	2017
	HK$'000	HK$'000
Borrowings	**763,656**	768,457
Amount due to LGB (HK)	**–**	595,739
Total debt	**763,656**	1,364,196
Less: Cash and cash equivalent	**(296,897)**	(130,141)
Net debt	**466,759**	1,234,055
Total equity	**969,979**	181,486
Total capital	**1,436,738**	1,415,541
Gearing ratio	**32.5%**	87.2%

The decrease in the gearing ratio is mainly due to the capitalisation of the amount due to LGB (HK) during the year and the increase in total equity from the issuance of shares upon the Share Offer.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates ad assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4.1 Service Concession Arrangement

As explained in note 2.7, the Group recognises financial asset and intangible asset at the relevant fair values of the consideration paid and/or services rendered in connection with the TOT arrangement, which have been accounted for separately in the consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Service Concession Arrangement *(continued)*

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible assets component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, the operating margin (39.0%), interest rate (6.75%), expected future income generated from these infrastructure over its Service Concession Period including future guaranteed receipts and unguaranteed receipts, treated effluent volume, inflation of operating costs (3.0%), and also to choose a suitable post-tax discount rate (9.78%) in order to calculate the present value of the financial asset component and intangible assets component. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition. Any change in the expected cash flows will result in change in the carrying values of the financial asset component, and the intangible asset component accordingly.

The fair value of the upgrade services under the service concession arrangement is calculated as the estimated total construction cost plus a profit margin. The construction margin (10.0%) is adopted throughout the service concession period, based on prevailing market rate applicable to similar construction service rendered. Revenue relating to construction or upgrade services are accounted for in accordance with the accounting policy in note 2.19.

Imputed interest income is recognised from time to time on receivable under the service concession arrangement on an accrual basis using the effective interest method by discounting the estimated future cash receipts over the Service Concession Period at the estimated effective interest rate computed at initial recognition.

According to the TOT agreement entered into by the Group and the Grantor in September 2011, the Grantor will compensate the Group if there is any change in the tax rules of Business Tax ("**BT**") or Value-Added Tax ("**VAT**") during the Service Concession Period leading to increase in the Group's operating costs.

On 9 December 2008, the Ministry of Finance and the State Administration of Taxation jointly issued Notice on Value Added Tax Policy Regarding Comprehensive Utilisation of Resources and Other Products Caishui 2008 No. 156 (hereinafter referred to as Caishui 2008 No. 156). According to Caishui 2008 No. 156, with effect from 1 January 2009, taxpayers engaged in the wastewater processing business and sales of reclaimed water are eligible for 100% VAT exemption if they satisfy the requirements as set out in Caishui 2008 No. 156 and obtain the Certificate of Comprehensive Utilisation of Resources. On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the Notice on Preferential Value-added Tax Catalogue for Products and Services Involving Comprehensive Utilisation of Resources, Caishui 2015 No. 78 (hereinafter referred to as Caishui 2015 No. 78). According to Caishui 2015 No. 78, taxpayers engaged in the wastewater processing business and sales of reclaimed water are required to pay VAT with effect from 1 July 2015, with 70% and 50% of the VAT in relation to the wastewater processing business and sales of reclaimed water respectively refunded upon VAT being paid.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Service Concession Arrangement *(continued)*

Prior to 1 July 2015, the Group was exempted from VAT according to Caishui 2008 No. 156. Since 1 July 2015, 70% and 50% of the VAT paid by the Group in relation to the wastewater processing business and the sales of reclaimed water respectively were refunded according to Caishui 2015 No. 78, and the Group was entitled to claim and have claimed the Grantor for the balance of the VAT payment under the TOT agreement. Hence management considered it is reasonable to assume these compensations will be continuously received throughout the Service Concession Period. When the expectation is different from the original estimate, such differences will impact the segregation of the consideration between the financial asset component and the intangible asset component.

The assumptions used in the assessment are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. For illustration purposes, a hypothetical change in these key assumptions would have the following changes to the financial position and results of operations of the Group as at and for the years ended 31 December 2018 and 2017.

As at and for the year ended 31 December 2018

Key assumptions	**Hypothetical changes**	**Receivable under service concession arrangement increase/ (decrease) HK$'000**	**Intangible assets increase/ (decrease) HK$'000**	**Profit after tax increase/ (decrease) HK$'000**
Operating margin	**–1.0%**	**2,155**	**(1,842)**	**245**
	+1.0%	**(2,155)**	**1,842**	**(245**
Construction margin	**–0.5%**	**(423)**	**(472)**	**327**
	+0.5%	**423**	**472**	**(327)**

As at and for the year ended 31 December 2017

Key assumptions	Hypothetical changes	Receivable under service concession arrangement increase/ (decrease) HK$'000	Intangible assets increase/ (decrease) HK$'000	Profit after tax increase/ (decrease) HK$'000
Operating margin	–1.0%	11,790	(8,985)	349
	+1.0%	(11,790)	8,985	(349)
Construction margin	–0.5%	1,537	(2,170)	(527)
	+0.5%	(1,537)	2,170	528

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Useful Lives of Property, Plant and Equipment and Intangible Assets

The Group depreciates the property, plant and equipment, amortises the intangible assets in accordance with the accounting policies stated in notes 2.5 and 2.6 respectively. The estimated useful lives reflect the director's estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

4.3 Impairment of Receivables

Provision for expected credit loss is made when the Group will not collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision reflects either 12-month expected credit losses, or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of debtors and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the consolidated income statement. Key judgements on provisions made are disclosed in note 19.

4.4 Income Taxes and Deferred Taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of directors of the Company.

Operating segments are reported in the manner consistent with the internal reporting provided to the CODM. The Group is subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole. The Board of directors of the Company considers the performance assessment of the Group should be based on the profit before income tax of the Group as a whole and regards the Group as a single operating segment and reviews consolidated financial statements accordingly. Therefore, the Board of directors of the Company considers these to be only one operating segment under the requirements of HKFRS 8 "Operating Segments".

5 REVENUE AND SEGMENT INFORMATION *(continued)*

The Group provides wastewater treatment services in the PRC.

An analysis of the Group's revenue from contracts with customers is as follows:

	2018 HK$'000	2017 HK$'000
Revenue		
Wastewater treatment operation services	**142,714**	76,590
Recycle water supply operation services	**5,403**	5,428
Wastewater treatment construction services	**248,656**	197,249
Finance income from service concession arrangement	**95,018**	86,002
Management fees from a related company (note 29(a))	**714**	1,112
	492,505	366,381

	2018 HK$'000	2017 HK$'000
Timing of revenue recognition		
At a point in time	**5,403**	5,428
Over time	**392,084**	274,951
	397,487	280,379
Finance income from service concession arrangement	**95,018**	86,002
	492,505	366,381

Segment Assets and Liabilities

No assets and liabilities are included in the Group's segment reporting that are submitted to and reviewed by the CODM internally. Accordingly, no segment assets and liabilities are presented.

5 REVENUE AND SEGMENT INFORMATION *(continued)*

Information about Major Customers

External customers, who contribute over 10% of total revenue of the Group are as follows:

	2018	2017
	HK$'000	HK$'000
Customer A	**486,388**	359,841

Geographical Information

During the year, all of the revenue was from customers in the PRC.

In relation to non-current assets held by the Group (primarily represented by property, plant and equipment, receivable under service concession arrangement, intangible assets and other non-current assets as detailed in notes 15, 16, 17 and 26), these are located in the PRC.

Contract Assets and Liabilities

	2018	2017
	HK$'000	HK$'000
Contract assets — receivable under service concession arrangement (note (i))		
— Non-current	**–**	191,860
— Current	**–**	34,761
Contract liabilities — advances from customers for wastewater treatment operation services		
— Current	**–**	7

5 REVENUE AND SEGMENT INFORMATION *(continued)*

Note:

(i) Payment for wastewater treatment construction services is not due from the customer until the construction services on the upgrade are completed. As a result, a contract asset is recognised over the period in which the construction services on the upgrade are performed to represent the entity's right to consideration for the services transferred to date. Contract assets will be subsequently reclassified as receivable under service concession arrangement after the construction services on the upgrade has completed. Contract assets — receivable under service concession arrangement have decreased due to the completion of the upgrade of wastewater facilities for Yinchuan Wastewater Treatment Plant No. 1 and No. 4 (phase I).

There were no impairment losses recognised on any contract asset in 2018 (2017: Nil).

Transaction Price Allocated to the Remaining Performance Obligation

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the year:

	2018 **HK$'000**	2017 HK$'000
Wastewater treatment construction services	**403,800**	674,953
Wastewater treatment operation services	**4,845,206**	5,987,490

Management expects that the transaction price allocated to the unsatisfied performance obligation for wastewater treatment construction services as of 31 December 2017 and 2018 will be recognised as revenue during 2018 to 2020.

The transaction price allocated to the unsatisfied performance obligation for wastewater treatment operation services represents the expected future income generated over the Service Concession Period including future guaranteed receipts and unguaranteed receipts. The amount as of 31 December 2017 and 2018 will be recognised as revenue over the remaining periods of the Service Concession Period.

6 OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income	**1,124**	641
VAT refund (note)	**2,764**	1,944
Others	**252**	262
	4,140	2,847

During the six months ended 30 June 2015, the Group was exempted from VAT according to Caishui 2008 No. 156. Since 1 July 2015, 70% and 50% of the VAT paid by the Group in relation to the wastewater processing business and the sales of recycle water respectively were refunded according to Caishui 2015 No. 78, and the Group was entitled to claim and have claimed from the Grantor the balance of the VAT payment under the TOT agreement. Hence the Group recognised these VAT refunds attributable to intangible assets as other income for the year ended 31 December 2018 and 2017.

7 OTHER GAINS/(LOSSES), NET

	2018 HK$'000	2017 HK$'000
Net gains on disposal of property, plant and equipment	**–**	7
Net gains on financial assets at fair value through profit or loss	**1,489**	913
Net foreign exchange gains/(losses)	**3,888**	(4,001)
Gain on deregistration of a subsidiary	**144**	–
Others	**(98)**	(2)
	5,423	(3,083)

8 EXPENSES BY NATURE

	2018 HK$'000	2017 HK$'000
Employee benefit expenses (note 9)		
— Cost of sales	**11,058**	8,458
— General and administrative expenses	**6,655**	5,364
Depreciation of property, plant and equipment (note 15)	**408**	215
Amortisation of intangible assets (note 17)	**2,487**	2,008
Construction cost	**226,050**	179,317
Costs of wastewater treatment operation and recycle water supply operation services		
— Chemical	**35,743**	11,796
— Utility	**25,301**	18,607
— Others	**13,440**	10,766
Legal and professional fee	**1,495**	56
Auditor's remuneration		
— Audit service	**1,760**	251
— Non-audit service (listing expenses)	**3,150**	–
Rental expenses	**364**	339
Travelling and transportation expenses	**3,497**	2,203
Repair and maintenance costs	**1,925**	2,451
Office expenses	**870**	651
Listing expenses	**15,887**	–
Others	**3,237**	1,132
	353,327	243,614

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 HK$'000	2017 HK$'000
Wages and salaries	12,260	10,158
Social security expenses	2,838	2,298
Other staff benefits and welfare	2,615	1,366
	17,713	13,822

The Group is required to contribute certain percentage of payroll costs as set by local municipal governments to each scheme locally to fund the retirement benefit scheme. These contributions are included in "Other staff benefits and welfare".

(a) Five Highest Paid Individuals:

The five individuals during the year whose emoluments were the highest in the Group include 1 director for the year ended 31 December 2018 (2017: 1 director), whose emoluments are reflected in note 10. The emoluments payable to the remaining 4 individuals for the year ended 31 December 2018 (2017: 4 individuals), are as follows:

	2018 HK$'000	2017 HK$'000
Wages and salaries	2,298	1,854
Social security expenses	112	181
	2,410	2,035

The emoluments of the remaining non-directors individuals fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
Nil to HK$1,000,000	4	4

10 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' Emoluments

The emoluments paid or payable to the directors of the Group are as follows:

Year ended 31 December 2018

Name	Fees HK$'000	Salary (note (i)) HK$'000	Discretionary bonuses (note (ii)) HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking (note (iii)) HK$'000	Total HK$'000
Chairman, non-executive director							
Mr. CS Lim (note (iii))	12	–	–	–	–	–	12
Executive director							
Mr. Wong Kok Sun (notes (iii) and (iv))	102	889	164	499	–	–	1,654
Independent non-executive directors							
Mr. Tan Yee Boon	12	–	–	–	–	–	12
Mr. Hew Lee Lam Sang	12	–	–	–	–	–	12
Mr. Tam Ka Hei Raymond	12	–	–	–	–	–	12
Total	150	889	164	499	–	–	1,702

10 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

(a) Directors' Emoluments *(continued)*

The emoluments paid or payable to the directors of the Group are as follows:

Year ended 31 December 2017

Name	Fees HK$'000	Salary (note (i)) HK$'000	Discretionary bonuses (note (ii)) HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking (note (iii)) HK$'000	Total HK$'000
Chairman, non-executive director							
Mr. CS Lim (note (iii))	–	–	–	–	–	–	–
Executive director							
Mr. Wong Kok Sun (notes (iii) and (iv))	–	982	164	258	–	–	1,404
Independent non-executive directors							
Mr. Tan Yee Boon	–	–	–	–	–	–	–
Mr. Hew Lee Lam Sang	–	–	–	–	–	–	–
Mr. Tam Ka Hei Raymond	–	–	–	–	–	–	–
Total	–	982	164	258	–	–	1,404

10 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

(a) Directors' Emoluments *(continued)*

Notes:

(i) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings.

(ii) Discretionary bonuses are determined based on the financial performance of the Group and the performance of each individual.

(iii) During the year and before the listing of the Group, Mr. CS Lim and Mr. Wong Kok Sun received emoluments from the previous holding company of the Group prior to the Reorganisation, part of which is in respect of their services to the Group. No apportionment of such emoluments has been made as it is considered that it is impracticable to apportion the amounts between the services to the Group and the services to the ultimate holding company.

(iv) During the year, the payments made to Mr. Wong Kok Sun were paid in respect to his capacity as chief executive officer. He was appointed as executive director of the Company on 11 May 2018.

(b) Directors' Retirement and Termination Benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2017: Nil).

(c) Consideration Provided to Third Parties for Making Available Directors' Services

The Group did not pay consideration to any third parties for making available directors' services during the year (2017: Nil).

(d) Information about Loans, Quasi-loans and Other Dealings in Favour of Directors, Controlled Bodies Corporate by and Connected Entities with Such Directors

Save as disclosed in note 29 in the consolidated financial statements, there are no loans, quasi-loans and other dealings in favour of directors, controlled body corporate by and connected entities with such directors during the year (2017: same).

(e) Directors' Material Interests in Transactions, Arrangements or Contracts

Save as disclosed in note 29, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: same).

11 FINANCE COSTS

	2018	2017
	HK$'000	HK$'000
Interest expenses on borrowings	**43,360**	41,299
Interest expenses on loan from LGB (HK) (note 29(a))	**286**	809
	43,646	42,108
Less: interest expenses capitalised as intangible asset	**–**	(136)
Finance costs	**43,646**	41,972

12 INCOME TAX EXPENSE

	2018	2017
	HK$'000	HK$'000
Current income tax	**13,512**	–
Deferred income tax *(note 25)*	**21,453**	21,659
	34,965	21,659

Hong Kong profits tax has not been provided as the Group had no estimated assessable profit (2017: Nil). Taxation on Mainland China profits has been calculated on the estimated taxable profits at the rate of 25%.

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

12 INCOME TAX EXPENSE *(continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the group entities as follows:

	2018 **HK$'000**	2017 HK$'000
Profit before income tax	**105,095**	80,559
Taxation at an applicable rate of 25%	**26,273**	20,140
Incomes not subject to tax	**(220)**	(1)
Expenses not deductible	**8,388**	1,499
Tax losses not recognised	**524**	59
Others	**–**	(38)
Income tax expense	**34,965**	21,659

13 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares issued during the year.

	2018	2017
Profit attributable to the ordinary shareholders of the Company (HK$'000)	**69,996**	58,915
Weighted average number of ordinary shares in issue (thousand)	**273,973**	75,000
Basic earnings per share (HK$)	**0.26**	0.79

The weighted average number of ordinary shares for the purpose of calculating basic earnings per shares has been determined on the assumption that the Reorganisation as described in Note 1.2 has been effective from 1 January 2017.

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding as at 31 December 2018 (2017: Same).

14 DIVIDENDS

No dividend has been paid or declared by the Company for the year (2017: Nil).

15 PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixture and equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
Net book value				
At 1 January 2017	432	619	38	1,089
Additions	730	–	6	736
Depreciation	(128)	(75)	(12)	(215)
Disposals	(1)	–	–	(1)
Currency translation differences	46	43	2	91
At 1 January 2018	**1,079**	**587**	**34**	**1,700**
Additions	**592**	**–**	**46**	**638**
Depreciation	**(314)**	**(72)**	**(22)**	**(408)**
Currency translation differences	**(64)**	**(52)**	**(4)**	**(120)**
At 31 December 2018	**1,293**	**463**	**54**	**1,810**
At 1 January 2017				
Cost	2,874	1,439	229	4,542
Accumulated depreciation	(2,442)	(820)	(191)	(3,453)
Net book value	432	619	38	1,089
At 31 December 2017				
Cost	3,810	1,540	251	5,601
Accumulated depreciation	(2,731)	(953)	(217)	(3,901)
Net book value	1,079	587	34	1,700
At 31 December 2018				
Cost	**3,949**	**985**	**208**	**5,142**
Accumulated depreciation	**(2,656)**	**(522)**	**(154)**	**(3,332)**
Net book value	**1,293**	**463**	**54**	**1,810**

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation was charged to cost of sales and general and administrative expenses as below:

	2018	2017
	HK$'000	HK$'000
Cost of sales	**388**	188
General and administrative expense	**20**	27
Depreciation of property, plant and equipment	**408**	215

16 RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

The Group has entered into a service concession arrangement with a government authority in the PRC under a transfer-operate-transfer model in respect of its wastewater treatment services based on the TOT agreement dated September 2011 (the "**Service Concession Agreement**"). This service concession arrangement involves the Group as an operator (i) paying a specific amount for the wastewater treatment plants (collectively, the "**Facilities**") for an arrangement under a TOT model; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authority for 30 years from September 2011, and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism as defined in the Service Concession Agreement.

The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authority as the Grantor will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the Service Concession Period.

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

As further explained in the accounting policy for "Service concession arrangement" set out in note 2.7 to the consolidated financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (service concession) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate.

The service concession arrangement with the government authority is recognised as a combination of financial asset and intangible asset since the project had an unconditional contractual right to receive cash from the government authority based on the guaranteed wastewater treatment volume, and a right to charge the government authority on the additional wastewater treatment volume.

16 RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT *(continued)*

The following is the summarised information of the financial asset component (receivable under service concession arrangement) with respect to the Group's service concession arrangement:

	2018	2017
	HK$'000	HK$'000
Receivable under service concession arrangement		
— Current	**264,922**	251,359
— Non-current	**1,266,925**	1,153,512
	1,531,847	1,404,871

The collection of receivables under the service concession arrangement is closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under the service arrangement are future billable receivables. They were mainly due from a governmental authority in the PRC, as the Grantor in respect of the Group's service concession arrangement. All of these financial assets are considered to have low credit risk as they have a low risk of default and the counterparty has strong capability to meet its contractual cash flow obligations in the near term. Therefore, impairment provision was limited to twelve months expected losses and estimated to be minimal.

17 INTANGIBLE ASSETS

	Service concession right	**Computer softwares**	**Total**
	HK$'000	HK$'000	HK$'000
Net book value			
At 1 January 2017	47,681	1	47,682
Additions	10,247	–	10,247
Amortisation	(2,008)	–	(2,008)
Currency translation differences	3,575	–	3,575
At 1 January 2018	**59,495**	**1**	**59,496**
Additions	**12,746**	**–**	**12,746**
Amortisation	**(2,486)**	**(1)**	**(2,487)**
Currency translation differences	**(3,298)**	**–**	**(3,298)**
At 31 December 2018	**66,457**	**–**	**66,457**

17 INTANGIBLE ASSETS *(continued)*

	Service concession right HK$'000	Computer softwares HK$'000	Total HK$'000
At 1 January 2017			
Cost	55,932	20	55,952
Accumulated amortisation	(8,251)	(19)	(8,270)
Net book value	47,681	1	47,682
At 31 December 2017			
Cost	70,385	22	70,407
Accumulated amortisation	(10,890)	(21)	(10,911)
Net book value	59,495	1	59,496
At 31 December 2018			
Cost	**79,205**	**21**	**79,768**
Accumulated amortisation	**(12,748)**	**(21)**	**(13,311)**
Net book value	**66,457**	**–**	**66,457**

Amortisation was charged to cost of sales during the year ended 31 December 2018 (2017: same).

18 INVENTORIES

	2018 HK$'000	2017 HK$'000
Consumables — chemicals	**731**	364

No provision was made by the Group on inventories during the year ended 31 December 2018 (2017: Nil). The cost of inventories recognised as expenses and included in cost of sales amounted to approximately HK$35,743,000 for the year ended 31 December 2018 (2017: HK$11,796,000).

19 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**49,947**	17,168
Other receivables	**6,735**	5,305
Loan receivable (Note)	**6,830**	–
Prepayment	**8,877**	13,653
	72,389	36,126

Note: During the year, upon the request of Municipal Government of Yinchuan, all wastewater treatment service providers in Yinchuan are required to provide short-term funding to a sludge treatment company (the "**Borrower**") to finance its upgrade and expansion works to ensure smooth operation of the wastewater treatment facilities.

Accordingly, under the guidance of Construction Bureau of Yinchuan, Taliworks (Yinchuan) Wastewater Treatment Co., Ltd. a subsidiary of the Company entered into an entrusted loan arrangement with a PRC bank and the Borrower for a sum of RMB6,000,000. The loan is interest-bearing at a floating rate of 115% of People's Bank of China base rate per annum and repayable within 12 months after the end of the reporting period.

Expected Credit Losses

The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The directors consider the expected credit loss is minimal as the majority of the trade and other receivables are due from governmental authorities in the PRC which has no recent history of default.

In general, the Group grants credit periods of within 5–20 days to its customers. Aging analysis of gross trade receivables at the respective reporting dates, based on the invoice dates are as follows:

	2018 HK$'000	2017 HK$'000
0–30 days	**26,372**	17,147
31–60 days	**23,572**	19
61–90 days	**1**	–
Over 90 days	**2**	2
	49,947	17,168

The trade and other receivables are measured at amortised cost. The carrying amount of trade and other receivables approximates their fair values and are mainly denominated in RMB.

The maximum exposure to credit risk at each reporting date is the carrying value of trade and other receivables.

20 CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Non-current		
Restricted bank balances (note (i))	**4,554**	4,785
Current		
Restricted bank balances (note (ii))	**–**	6,580
Cash and cash equivalents	**296,897**	130,141
	301,451	141,506

The cash and bank balances are denominated in RMB, US$, HK$ and Singapore dollars.

The conversion of RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Note (i): Amount represented bank balances held at bank for guarantee for service concession arrangement. Such bank balances will be released after the expiry of the service concession arrangement.

Note (ii): Amount represented the restricted bank balances for note payables (note 23).

21 SHARE CAPITAL

	Number of Shares	Share Capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 17 April 2018 (date of incorporation) (Note (a))	38,000,000	380
Increase in authorised share capital (Note (d))	9,962,000,000	99,620
At 31 December 2018	10,000,000,000	100,000
Issued and fully paid		
At 17 April 2018 (date of incorporation) (Note (a))	1	–
Issuance of shares pursuant to the Reorganisation (Note (b))	9,999	–
Capitalisation of amount due to LGB (HK) (Note (c))	90,000	1
Capitalisation issue of shares (Note (e))	749,900,000	7,499
Share issued pursuant to the Share Offer (Note (f))	250,000,000	2,500
	1,000,000,000	10,000

(a) On 17 April 2018, the Company was incorporated in the Cayman Islands with authorised share capital of HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each. At the time of the incorporation, one nil paid share was issued and allotted to an initial subscriber and was transferred to Sparkle Century.

(b) On 10 May 2018, the Company allot and issue a total of 9,999 shares to Sparkle Century at par value pursuant to the Reorganisation as disclosed in note 1.2(v).

(c) On 28 September 2018, LGB (HK), Sparkle Century and the Company entered into a deed of loan assignment pursuant to which LGB (HK) assigned the loan due from our Company to LGB (HK) ("**LGB HK Shareholder Loan**") to Sparkle Century, in consideration of Sparkle Century undertaking to repay a sum with the same amount under the same terms as the above LGB HK Shareholder Loan to LGB (HK). On the same day, Sparkle Century capitalised the shareholder's loan owed by the Company to it of approximately HK$590,961,000, in consideration of the Company issuing and allotting 90,000 new shares at par value to Sparkle Century. After the capitalisation, the Company remained to be wholly-owned by Sparkle Century.

(d) Pursuant to the written resolutions passed on 4 October 2018, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by creation of an additional 9,962,000,000 shares at par value upon completion of the placing.

(e) Pursuant to the written resolutions passed on 4 October 2018, the Company issued additional 749,900,000 shares at par value upon completion of the placing, credited to share premium account as fully paid, to the existing shareholders of the Company.

(f) In connection with the Company's listing on the Main Board on 29 November 2018, 250,000,000 shares were issued pursuant to the Share Offer at price of HK$0.58 per share for a total consideration of HK$145,000,000, with issuance costs amounted to approximately HK$17,215,000 being charged to the share premium account of the Company.

22 BORROWINGS

	2018 HK$'000	2017 HK$'000
Non-current		
Long-term borrowings	**685,176**	700,356
Current		
Current portion of long-term borrowings	**66,526**	48,960
Short-term borrowings	**11,954**	19,141
	763,656	768,457

The effective annual interest rates at each of the reporting dates are as follows:

	2018 HK$'000	2017 HK$'000
Short-term borrowings	**5.00%–5.65%**	5.00%
Long-term borrowings	**5.39%–6.37%**	5.39%–5.90%

The Group's bank borrowings were repayable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**78,479**	68,101
Between 1 and 2 years	**66,520**	58,431
Between 2 and 5 years	**240,830**	230,982
Over 5 years	**377,827**	410,943
	763,656	768,457

The Group's borrowings as at 31 December 2018 were secured by contractual rights to receive revenue generated by the Group and the land use right granted by the government in relation to parcel of land of which the wastewater treatment plants are situated. All bank borrowings are measured at amortised cost (2017: same). The balances approximate their fair values and are denominated in RMB.

23 TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**9,216**	89,838
Advances from customers	**–**	12
Retention payables	**21,213**	8,608
Note payables	**–**	6,580
Other payables and accruals	**97,720**	29,024
	128,149	134,062

The carrying amounts of trade and other payables approximated their fair values as at 31 December 2018 and 2017 and are denominated in RMB and HK$.

The aging analysis of trade payables based on invoices dates is as follows:

	2018 HK$'000	2017 HK$'000
0–30 days	**3,640**	26,364
31–60 days	**4,024**	39,257
61–90 days	**71**	2,226
Over 90 days	**1,481**	21,991
	9,216	89,838

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss were unlisted debt instrument denominated in RMB. The unlisted debt instrument mainly represented principal-protected investments which had minimal risk. The unlisted debt instrument was disposed of during the year.

Financial assets at fair value through profit or loss are presented within "investing activities" as part of cash flow from investing activities in the consolidated statement of cash flows. Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other gains/(losses), net" in the consolidated income statement.

25 DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and liabilities are calculated on temporary differences under the liability method using applicable taxation rates in the tax jurisdictions of the relevant entities.

The movements in deferred tax assets and liabilities during the year, without taking into accounts for the offsetting of the balances within the same tax jurisdiction, are as follows:

(a) Deferred Tax Assets

	Tax losses
	HK$'000
At 1 January 2017	21,039
Charged to profit or loss	(9,007)
Currency translation differences	1,227
At 31 December 2017	**13,259**
Charged to profit or loss	**(13,155)**
Currency translation differences	**(104)**
At 31 December 2018	**–**

(b) Deferred Tax Liabilities

	Temporary differences on assets recognised under HK(IFRIC) -Int 12
	HK$'000
At 1 January 2017	84,688
Charged to profit or loss	12,652
Currency translation differences	6,290
At 31 December 2017	**103,630**
Charged to profit or loss	**8,298**
Currency translation differences	**(5,388)**
At 31 December 2018	**106,540**

25 DEFERRED TAX ASSETS/LIABILITIES *(continued)*

(b) Deferred Tax Liabilities *(continued)*

	2018 HK$'000	2017 HK$'000
Deferred tax assets		
— Recoverable within twelve months	**–**	13,259
Deferred tax liabilities		
— Payable or settle more than twelve months	**106,540**	103,630
Deferred tax assets	**–**	13,259
Deferred tax liabilities	**(106,540)**	(103,630)
Net deferred tax liabilities	**(106,540)**	(90,371)

As at 31 December 2018, the estimated tax impact to the Group due to unrecognised tax losses was approximately HK$1,380,000 (2017: HK$16,303,000).

	2018 HK$'000	2017 HK$'000
With no expiry date	**3,929**	4,601
Expiring no later than one year	**11**	438
Expiring later than one year and no later than five years	**1,369**	11,264
	1,380	16,303

As at 31 December 2018, there was unrecognised deferred tax liabilities associated with undistributed earnings in a subsidiary and the total undistributed earnings are approximately HK$364,265,000 (2017: HK$267,039,000), as the directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

26 OTHER NON-CURRENT ASSETS/MATERIAL NON-CONTROLLING INTERESTS

The subsidiary with material non-controlling interests is TECO. TECO and its subsidiary ("TECO Group") held an other non-current asset, and remained inactive throughout the year. The other non-current asset represents the cost incurred for the construction of a wastewater treatment plant of TECO's subsidiary that is not viable. During the year ended 31 December 2018, TECO Group was disposed of and details are set out in note 32.

Summarised Consolidated Financial Statements on Subsidiary with Material Non-controlling Interests

Summarised statements of financial position

	2017 HK$'000
Total assets	47,907
Total liabilities	(90,738)
	(42,831)

Summarised income statements

	2017 HK$'000
Loss after tax	(52)
Other comprehensive income	(803)

Summarised statements of cash flows

	2017 HK$'000
Net (decrease)/increase in cash and cash equivalents	12

The information above represented the amount before inter-company eliminations.

27 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of Profit Before Income Tax to Cash (Used in)/Generated from Operations

	2018 HK$'000	2017 HK$'000
Profit before income tax	105,095	80,559
Adjustments for:		
Depreciation and amortisation	2,895	2,223
Interest income	(1,124)	(641)
Finance costs	43,646	42,108
Profit from wastewater treatment construction services	(22,605)	(17,932)
Fair value gain on the financial assets at fair value through profit or loss	(1,489)	(913)
Net gain on disposal of property, plant and equipment	–	(7)
Gain on deregistration of a subsidiary	(144)	–
Unrealised exchange differences	(3,888)	2,943
Operating profit before working capital changes	122,386	108,340
Increase in inventories	(401)	(95)
Increase in trade and other receivables	(43,804)	(24,488)
Increase in receivable under service concession arrangement	(193,401)	(85,474)
Increase in amounts due from fellow subsidiaries	–	(2,650)
Decrease/(increase) in restricted bank balances	6,261	(6,580)
Increase in trade and other payables	24,648	45,292
(Decrease)/increase in amounts due to related companies	(146)	133
Increase in amounts due to a fellow subsidiary	27,834	1,231
Cash (used in)/generated from operations	(56,623)	35,709

27 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Reconciliation of Liabilities Arising from Financing Activities

This section sets out an analysis of liabilities arising from financing activities and the movements for each of the years presented.

	Amount due to LGB (HK) HK$'000	Short-term borrowings HK$'000	Long-term borrowings HK$'000	Total HK$'000
At 1 January 2017	535,161	13,974	700,579	1,249,714
Cash flows	55,397	4,074	(384)	59,087
Unrealised exchange differences	5,181	–	–	5,181
Currency translation differences	–	1,093	49,121	50,214
At 1 January 2018	**595,739**	**19,141**	**749,316**	**1,364,196**
Cash flows	**54,374**	**(6,528)**	**40,287**	**88,133**
Offset against LGB (HK)'s amount due to TIL upon disposal of TECO (note 32)	**(55,283)**	**–**	**–**	**(55,283)**
Capitalisation of amount due to LGB (HK) (note 21(c))	**(590,961)**	**–**	**–**	**(590,961)**
Unrealised exchange differences	**(3,869)**	**–**	**–**	**(3,869)**
Currency translation differences	**–**	**(659)**	**(37,901)**	**(38,560)**
At 31 December 2018	**–**	**11,954**	**751,702**	**763,656**

(c) Significant Non-cash Transactions

(i) On 28 September 2018, the Company has entered into a deed of loan assignment and the amount due to LGB (HK) of approximately HK$590,961,000 was assigned to Sparkle Century. On the same day, Sparkle Century capitalised the amount in consideration of the Company issuing and allotment 90,000 new shares to Sparkle Century (Note 21 (c)).

(ii) Pursuant to the written resolutions passed on 4 October 2018, the Company issued additional 749,900,000 shares at par value upon completion of the Share Offer, credited to share premium account as fully paid, to the existing shareholders of the Company (Note 21 (e)).

28 COMMITMENTS

(a) Capital Commitments

The Group has the following capital commitments in respect of upgrade and expansion of the Wastewater Treatment Plants:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for	**88,725**	200,530

The above commitments are in relation to service concession arrangement which will be classified as receivable under service concession arrangement or intangible asset.

(b) Lease Commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**439**	717
One to two years	**–**	30
	439	747

29 RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following material related party transactions:

	2018 HK$'000	2017 HK$'000
Management fees income from:		
— Tianjin-SWM (M) Environment Ltd., Co.	**392**	1,112
— Puresino (Guanghan) Water Co. Ltd.	**322**	–
Interest expenses to LGB (HK)	**286**	809

Management fees, interest expenses and consultancy fee are charged in accordance with the terms of respective agreements.

29 RELATED PARTY TRANSACTIONS *(continued)*

(b) Amounts due from/to fellow subsidiaries/related companies

The balances below were measured at amortised cost, unsecured, interest free, and had no fixed terms of repayment.

Amounts due from fellow subsidiaries

The balances below represent the maximum balances during the year.

	2018 **HK$'000**	2017 HK$'000
Currency		
Renminbi	–	15,862
Hong Kong dollars	–	2,100
Total	–	17,962

Amounts due to a fellow subsidiary

	2018 **HK$'000**	2017 HK$'000
Currency		
Renminbi	–	4,780

Amounts due to related companies

	2018 **HK$'000**	2017 HK$'000
Currency		
Renminbi	–	146

(c) Amount due to LGB (HK)

The balances as of 31 December 2017 were measured at amortised cost, unsecured and had no fixed terms of repayment. Except for the amount of US$1,600,000 (approximately HK$12,502,000) carrying interest at 6.5% per annum, the remaining balance was interest-free.

	2018 **HK$'000**	2017 HK$'000
Currency		
United States dollars	–	564,358
Hong Kong dollars	–	13,339
Renminbi	–	6,650
Malaysian Ringgit	–	4,716
Singapore dollars	–	6,676
Total	–	595,739

30 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 HK$'000
ASSETS		
Non-current asset		
Investment in a subsidiary		–
		–
Current assets		
Other receivables		451
Amount due from a subsidiary		581,855
Cash and cash equivalents		117,024
		699,330
Total assets		699,330
EQUITY		
Capital and reserves		
Share capital		10,000
Share premium	(a)	708,746
Retained earnings	(a)	(21,734)
Total equity		697,012
LIABILITIES		
Current liability		
Other payables		2,318
Total liabilities		2,318
Total equity and liabilities		699,330
Net current assets and total assets less current liability		697,012

The statement of financial position of the Company was approved by the Board of Directors on 25 March 2019 and was signed on its behalf.

Wong Kok Sun
Director

Lim Chin Sean
Director

30 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	Retained earnings HK$'000
At 17 April 2018 (date of incorporation)	–	–
Loss for the period	–	(21,734)
Capitalisation of amount due to LGB HK	590,960	–
Capitalisation issue of shares	(7,499)	–
Share issued pursuant to the Share Offer	142,500	–
Listing expenses charged to share premium	(17,215)	–
At 31 December 2018	708,746	(21,734)

31 SUBSIDIARIES

The table below lists the principal subsidiaries of the Group at 31 December 2018:

Name	Place and date of Incorporation/ establishment	Particulars of issued share capital	Percentage of equity attributable to the Group 31 December		Principal activities
			2018	2017	
Taliworks (Yinchuan) Wastewater Treatment Co., Ltd.	The PRC, 6 May 2011	US$68,880,000	**100%**	100%	Wastewater treatment
White Empire Group Limited	BVI, 12 February 2018	US$2	**100%**	–	Investment holding
Taliworks International Limited	Hong Kong, 27 September 2002	HK$100	**100%**	100%	Investment holding
Taliworks (Shanghai) Environmental Technologies Co., Ltd.	The PRC, 5 November 2008	US$1,500,000	**100%**	100%	Consultancy service
Taliworks Environment Limited	Hong Kong, 16 December 2008	HK$1	**100%**	100%	Inactive
Taliworks (Shanghai) Co., Ltd.	The PRC, 24 July 2005	US$125,000	**100%**	100%	Inactive
Taliworks-IBI Technologies International Limited	Hong Kong, 4 June 2007	HK$200,000	**–**	70%	Dissolved
Tilgea Consortium Sdn Bhd	Malaysia, 20 May 2010	Malaysian Ringgit 1,000,000	**–**	70%	Deregistered
Taliworks Eco Pte Ltd.	Singapore, 4 March 2008	Singapore dollars 100,000	**–**	70%	Investment holding
Ningxia Eco Wastewater Treatment Co., Ltd.	The PRC, 17 June 2010	US$4,200,000	**–**	70%	Inactive

32 DISPOSAL OF SUBSIDIARIES

TIL (as vendor) and LGB (HK), intermediate holding company (as purchaser) entered into a sale and purchase agreement pursuant to which, TIL agreed to sell and LGB (HK) agreed to purchase 70% equity interest held by TIL in Taliworks Eco Pte Ltd ("**TECO**"). As consideration, LGB (HK) agreed to pay TIL SG$1 as cash consideration (which was determined by the parties with reference to the net loss position of TECO); and assume absolutely and unconditionally all liabilities of TECO owed to TIL of approximately HK$55,283,000 by entering into a deed of novation on the same day with TIL and TECO. The transactions were properly and legally completed and settled on 11 April 2018, resulting in increase of equity by HK$30,506,000, which is accounted as a capital contribution with a capital reserve recognised in equity of the Group.

The details of the transaction are as follows:

	HK$'000
Property, plant and equipment	42
Other non-current assets	48,259
Cash and cash equivalents	76
Trade and other receivables	4,174
Trade and other payables	(24,040)
Amounts due to fellow subsidiaries	(14,804)
Amount due to TIL	(55,283)
Amount due to LGB (HK)	(160)
Net liabilities	(41,736)
Add: non-controlling interests	12,521
Less: exchange reserve	(1,291)
Capital reserve	(30,506)
Sales proceeds — cash received	–
Less: cash and cash equivalent of subsidiaries disposed of	(76)
Net cash outflow on disposal of subsidiaries	(76)

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of our Group for the last four financial years, as extracted from our Company's audited consolidated financial statements and the Prospectus, is set out below:

RESULTS

	Year ended 31 December			
	2018	2017	2016	2015
	HK$'000	HK$000	HK$000	HK$000
Revenue	**492,505**	366,381	207,419	250,521
Profit before tax	**105,095**	80,559	62,729	60,794
Income tax expense	**(34,965)**	(21,659)	(17,174)	(15,741)
Profit for the year attributable to:	**70,130**	58,900	45,555	45,053
Owners of our Company	**69,996**	58,915	46,218	45,596
Non-controlling interests	**134**	(15)	(663)	(543)

ASSETS AND LIABILITIES

	As at 31 December			
	2018	2017	2016	2015
	HK$'000	HK$000	HK$000	HK$000
Total assets	**1,974,685**	1,775,041	1,484,137	1,470,746
Total liabilities	**1,004,706**	1,593,555	1,403,804	1,398,056
Total equity	**969,979**	181,486	80,333	72,690