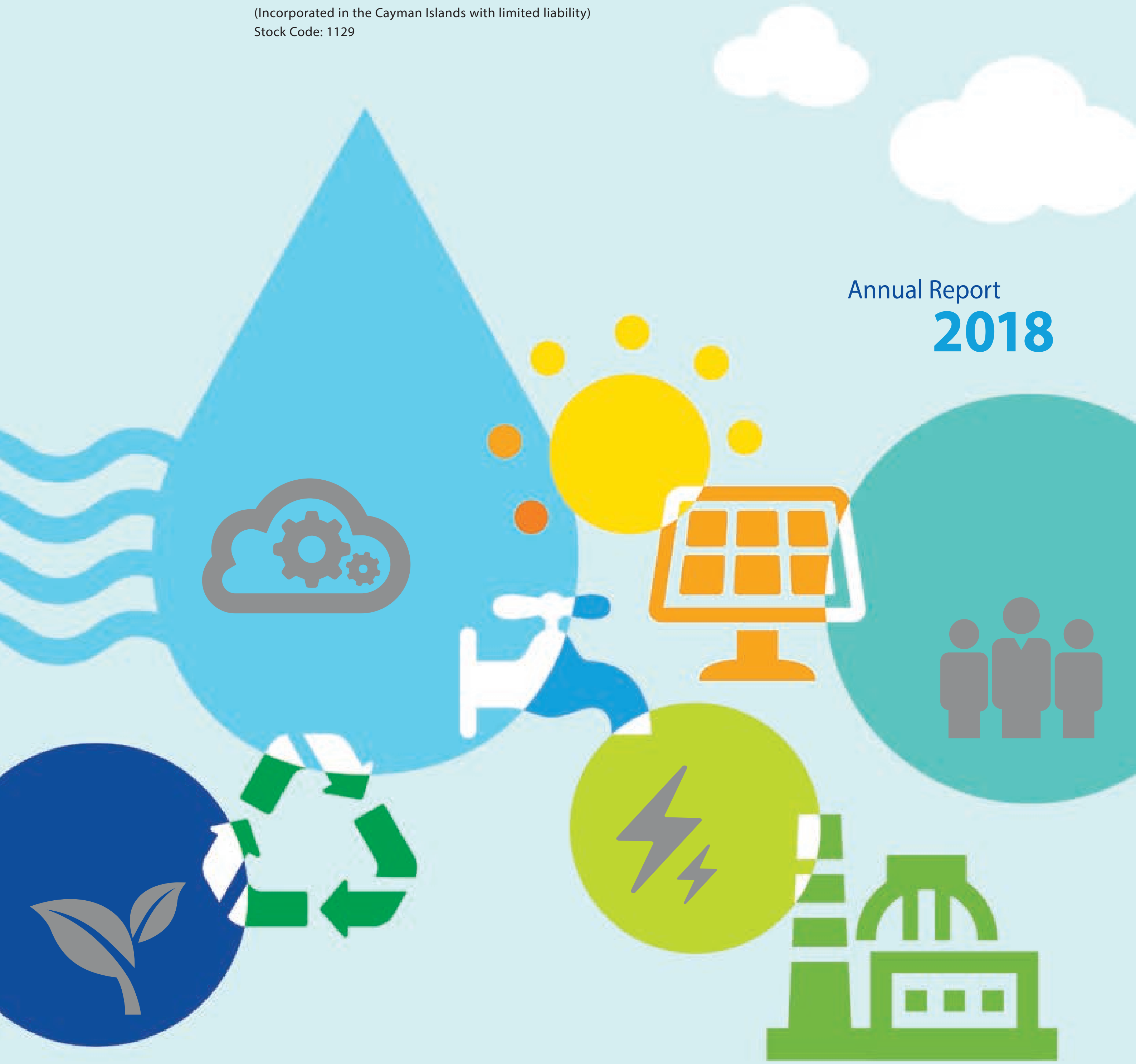
中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1129

Annual Report
2018



Build a Dream and Share Future Success

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

AUTHORISED REPRESENTATIVES

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

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

Hong Kong

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

LEGAL ADVISERS AS TO HONG KONG LAWS

Johnny K.K. Leung & Co.

LEGAL ADVISER AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

COMPLIANCE ADVISOR

Halcyon Capital Limited

AUDITORS

Crowe (HK) CPA Limited

REGISTERED OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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24 Shedden Road, P.O. Box 1586,
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

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North Point Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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STOCK

1129

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Change
	HK$'000	*HK$'000*	%
Financial Result			
Revenue	**950,166**	701,524	35.44%
Gross Profit	**396,733**	268,839	47.57%
Profit for the year	**65,582**	10,902	501.56%
Profit/(loss) attributable to owners of the Company	**6,646**	(49,111)	(113.53%)
Earnings/(loss) per share (HK cents)			
– Basic and diluted	**0.42**	(3.08)	(113.64%)
EBITDA *(Note)*	**303,241**	197,745	53.35%

	2018	2017	Change
	HK$'000	*HK$'000*	%
Financial Position			
Total assets	**3,560,712**	3,127,553	13.85%
Total liabilities	**1,798,302**	1,307,917	37.49%
Current assets	**1,378,507**	1,219,728	13.02%
Current liabilities	**955,779**	851,486	12.25%
Current ratio	**1.44 times**	1.43 times	0.70%
Cash and cash equivalents	**349,866**	297,883	17.45%
Gearing ratio	**50.50%**	41.82%	20.77%
Net asset value	**1,762,410**	1,819,636	(3.14%)
Equity attributable to owners of the Company	**1,219,396**	1,305,399	(6.59%)
Equity attributable to owners of the Company per share (HK$)	**0.76**	0.82	(7.32%)

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

FIVE YEARS FINANCIAL SUMMARY

	2014 *HK$'000* (restated)	2015 *HK$'000* (restated)	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Results					
Revenue	507,963	528,586	550,646	701,524	**950,166**
Finance costs	(21,670)	(8,842)	(24,083)	(33,780)	**(47,559)**
Profit (loss) before taxation	291,410	(50,658)	124,817	45,105	**107,233**
Income tax expense	(61,775)	(19,940)	(39,915)	(34,203)	**(41,651)**
Profit (loss) for the year	229,635	(70,598)	84,902	10,902	**65,582**
Assets and liabilities					
Non-current assets	993,766	1,390,004	1,547,212	1,907,825	**2,182,205**
Current assets	939,438	1,231,659	1,205,620	1,219,728	**1,378,507**
Total assets	1,933,204	2,621,663	2,752,832	3,127,553	**3,560,712**
Non-current liabilities	177,762	255,310	254,232	456,431	**842,523**
Current liabilities	485,448	713,794	860,393	851,486	**955,779**
Total liabilities	663,210	969,104	1,114,625	1,307,917	**1,798,302**
Net assets	1,269,994	1,652,559	1,638,207	1,819,636	**1,762,410**
Equity attributable to owners of the Company	939,577	1,310,827	1,263,852	1,305,399	**1,219,396**
Non-controlling interests	330,417	341,732	374,355	514,237	**543,014**
Earnings (loss) per share					
Basic	16.50 cents	(6.56) cents	1.96 cents	(3.08) cents	**0.42 cents**
Diluted	14.11 cents	(6.56) cents	1.96 cents	(3.08) cents	**0.42 cents**

CHAIRMAN'S STATEMENT

To Shareholders,

I hereby present to you the report of annual results of China Water Industry Group Limited (the "**Company**") and its subsidiaries (together as the "**Group**") for the year ended 31 December 2018.

2018 was a year with both opportunities and challenges. Amidst the weak recovery of global economy and the continued economic downturn of the PRC, all industries entered an economic winter. The Company made a breakthrough with its unique environment protection industrial attributes, favorable environmental policies in the "13th Five-year Plan" and its own platform advantages, and achieved steady development of water supply and new eco-energy segment businesses, from which such segments have been expanding gradually. City-industry integration also developed rapidly through forward looking deployment including smart industrial park, big data industry base, construction companies and construction material supply chain.

MARKET REVIEW:

The 19th National Congress of the Communist Party first proposed beautiful China as a socialist modernization goal paralleling with prosperity, democracy, civilization and harmony. As such, construction of ecological civilization has reached national strategic level. In 2018, environmental protection related policies were frequently promulgated. For the concept of "Lucid waters and lush mountains are invaluable asset", the PRC promulgated successively a series of actions and policies. The "seven major battles" outlined future work focus of the environment protection industry, which would drive sound development of the environment protection industry in the long run. The PRC's proportion of environmental protection investment in the GDP has been increasing year by year, and public financial expenditure on energy saving and environmental protection has been maintaining its growth momentum. However, there is still certain distance from developed countries, where environmental protection investment accounts for 2%-3% of the GDP. The PRC's prevailing policies are expected to increase both amount and proportion of pollution treatment investment. There is still room for development in the environment pollution treatment market.

The "13th Five-year Plan" and the "Water Pollution Prevention and Control Action Plan (水十條)" put forward more rigid requirements on sewage treatment. Along with the upgrade of treatment technology in the industry and the facilitation of upgrading and reconstruction works, urban daily sewage treatment capacity has been steadily improved. In recent years, completion of fixed assets construction for urban municipal sewage treatment has kept increasing. As a result, it is expected that the development of sewage treatment business will accelerate.

BUSINESS REVIEW:

1. Substantial growth in profit from the water supply segment and considerable effort in the development of intelligent water supply

All water supply segment companies carried out safe production throughout the year. Through continuous technology enhancement and service philosophy upgrade, the companies served the society diligently with their water supply and sewage treatment services, and have always taken the responsibility to secure residential water safety.

In 2018, all water supply segment companies attained substantial growth in profit and achieved innovation development of intelligent water supply. Among which, Yingtan Water Supply Group realized stable growth in profit for the year after years of brand resources integration and optimization. It also accelerated smart management and enhanced intelligent water supply through utilization of NB-IOT smart meters. Zhongkuang Construction Group Co. Ltd. (formerly known as "**Jiangxi Hualei Construction Co. Limited**") (**Zhongkuang Construction Group**) was established and a diversified large-scale construction enterprise was formed

CHAIRMAN'S STATEMENT

therewith. Currently, owns various national class-A qualifications. It is rooted in Jiangxi, focuses on Nanchang and gradually develops towards surrounding prefecture-level cities. Outside the province, with Huizhou, Guangdong as the pivot point, opened up the Guangdong-Hong Kong-Macau market and the national market, enhanced its corporate influence and established its own corporate risk control systems. At present, 9 contracted projects are under construction, which realized a great leap in operating profit and represented a prosperous future. Yichun Water Industry Co., Ltd recorded a significant increase in operating profit from major businesses during the year. It proactively facilitated intelligent Internet application, including urban-rural water supply integration, smart fire hydrants and remote meters. Linyi Fenghuang Water Industry Co. Ltd recorded its historical high in operating income. Various newly-established and expansion projects of Jining and Yichun Fangke are under orderly construction and making stable progress.

2. Steady development is favorable for the new eco-energy segment to realize leaping-over development

The Group's New China Water companies had acquired 36 domestic waste landfill gas resource utilization projects with an aggregate designed power generation installed capacity of 173MW, representing a year-on-year growth of 21MW. Power generation for the year reached 633 million kWh, representing a year-on-year growth of 64MW. In 2018, various newly-established and expansion projects have been gradually put into operation. Among which, the second phase of expansion of the Chengdu project has been completed, with a current total installed capacity of 30MW, ranking the first in the PRC in terms of installed capacity. Expansion of the Changsha project has been completed and put into operation with a total installed capacity reaching 28MW, which is second only to the Chengdu project in respect of installed capacity. The Company's first overseas project – the Jakarta project in Indonesia was officially launched and has been put into operation with a total installed capacity of 16MW.

In 2018, Shenzhen City New China Water Environmental Technology Limited* (深圳市新中水環保科技有限公司) signed a polygeneration strategic cooperation agreement with Hitachi (China) Ltd. and 國核電力固化設計研究院 (State Nuclear Electric Power Solidification Design and Research Institute*) in relation to biogas power generation, waste incineration and biomass gasification. The agreement has provided solid backup force for the sound development of the Group's projects in all segments in respect of planning and financial support.

3. Operational breakthrough of the glass recycling business

In April 2018, the Group's Hong Kong Glass Project won the bidding of the glass management project in Kowloon district, Hong Kong Special Administrative Region with a contract sum of HK$91.46 million for a term of 5 years. In 2018, the Group surmounted difficulties and created its own method of APP data automated management and innovative recycling treatment. During the year, the glass recycling business outperformed its counterparts and has become the only company which met the glass recycling requirements on time and in volume among the same batch of bid-winners.

4. The city-industry integration segment developed rapidly with great prospects

The Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) project in Huizhou is the first prefabricated construction in Huizhou, which is an all-round space setting creative offices, headquarter bases, apartments for top talents and commercial facilities in one. It will act as the portal and foothold for industry transfer in Hong Kong, Shenzhen and Dongguan, especially for smart transfer. It will assist the Guangdong-Hong Kong-Macau Greater Bay Area and build a national-level science and technology smart park. Currently, 70% of major construction has been completed and sales and business invitation works are progressing well with negotiations with large enterprises under progress in respect of settling in the park.

The Nanjing Space Big Data Industry Base project is a space big data industry cluster region built by the Group with its utmost effort. The base will adhere to the new development concept of "promoting cities with industries, prospering industries with cities" and will definitely become the new generation of city-industry integration demonstration project in East China.

5. Solid system establishment to cultivate talents with the Water Industry quality

In 2018, based on the prevailing situation, the Group facilitated system establishment and developed institutionalized systems, such as the "Staff Handbook", from administrative and human resources perspectives, in order to normalize management for the Group and its subsidiaries. The Group has also enhanced its team building and corporate culture construction by organizing various team development activities with an aim to raise corporate solidarity and cohesion.

In March 2018, the Water Industry sailing team was established for the development of boat sailing. Through conquering the nature, the team's willpower and determination of reaching the goal despite whatever difficulty that lies ahead have been built and so is an elite team with Water Industry's unique spirit. Sustainable development of talents is the foundation of corporate sustainable development.

PROSPECTS AND FUTURE PLANS:

Affected by the economy and the trade war, 2019 will be steady yet uncertain. Under this economic tide, the Group will spare no effort in ensuring synchronous progress and steady development of its three existing major business segments, being water supply, new eco-energy and city-industry integration. Meanwhile, the Group will actively explore domestic and overseas market and adjust to changing circumstances while preparing for challenges and making progress through difficulties.

1. Grasp market trend and open up new development prospects for the water supply segment

In 2018, environmental protection policies were frequently promulgated to facilitate reformation of water tariff and promote the protection of water resources, demonstrating the increasing importance of pollution prevention and control. In respect of market analysis, the water supply industry is highly regional, which implies great difficulties in expanding business to other regions. However, under the guiding effect of relevant government systems, the industry is gradually ushering in an era of reform.

(a) Along with the urban water supply and sewage treatment capacities becoming saturated, the Group's companies under the water supply segment, such as Yingtan Water Supply and Linyi Fenghuang Water Industry, will seek a win-win development approach through actively liaising and communicating with the government. The Group will break through the stalemate by enhancing technological level and supporting services for water supply so as to seek new source of profit growth. In 2019, the Group's overall profit from the water supply segment will continue to increase as compared to last year.

(b) The Group will expand the scale of 中礦建設集團 (Zhongkuang Construction Group*) under the Yingtan Water Supply Group and improve its performance. At the same time, the Group will accelerate intelligent water supply construction of project companies including Yichun Water and Linyi Fenghuang, with an aim to realize smart management and upgrade service level. Construction of the newly-established sewage treatment plants of Yichun Fangke and Jining will be completed and put into operation.

CHAIRMAN'S STATEMENT

2. **Integrate resource advantages, develop urban and rural environmental protection business and expand the new eco-energy segment to overseas market**

In 2019, the construction of ecological civilization will be in a critical period with multiple pressure, and progress will have to be made through difficulties. The Group will optimize its existing industrial structure while making great effort in exploring overseas market and striving for technical advancement in order to maintain continuous core competitiveness in the industry.

(a) As shown in the "2018 Annual Report on the Prevention and Control of Environmental Pollution Caused by Solid Waste in Large and Medium-sized Cities in the PRC (2018年全國大、中城市固體廢物污染環境防治年報)" published by the Ministry of Ecology and Environment, the overall domestic waste treatment and disposal industry in the PRC developed rapidly yet many issues remained to be resolved. Disparity between urban and rural domestic waste treatment levels is enormous. Therefore, rural waste treatment will become a new focus of industry development. the Group has signed a strategic cooperation agreement with 雲南合續環境科技有限公司 (Yunnan Hexu Environment Technology Company Limited*). In 2019, the Group will vigorously develop urban and rural decentralized waste and sewage treatment in an endeavor to achieve the new vision of "beautiful countryside".

(b) Leveraging "The Belt and Road Initiative" development policy of the PRC and based on its experience from the existing project in Jakarta, Indonesia, the Group will steadily advance overseas waste treatment and landfill gas power generation businesses, and proactively explore cooperation modes with enterprises in the solid waste industry from countries such as the Philippines, Thailand, India and the United Arab Emirates. The Group will create larger room for development with its technology and management advantages and continue to open up the "go abroad" strategic journey.

3. **Keep pace with the development plans in the PRC, adapt to the trend and accelerate business development of the city-industry integration segment**

(a) The main construction works of Nanjing Space Big Data Industry Park (南京空間大數據產業園) and Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) in Huizhou under the city-industry integration segment will be completed in 2019. According to the PRC's "Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area", Huizhou will become an important node city in the development of the Greater Bay Area. The Group will follow the PRC's planning trend and, together with its own development layout, establish the Group's headquarters in the industrial park in Huizhou and form a standardized exhibition center.

(b) The Group will accelerate the sales, business invitation and financing progress of the Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) project in Huizhou and the Nanjing Space Big Data Industry Park (南京空間大數據產業園) project. The Group will also follow up the construction and implementation of the big data industry and the aerospace satellite industry so as to realize city-industry integration in its true sense.

(c) Recently, the PRC Government and the Hong Kong Government announced the Guangdong, Hong Kong-Macao Greater Bay Area ("**Greater Bay Area**") development plan of which the Greater Bay Area consists of the Hong Kong, the Macao Special Administrative Region as well as the municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province. The develop plan is aiming to develop the Greater Bay Area into an international first-class bay area and a world-class city cluster. With increasing market potential of Huizhou being one of the cities in the Greater Bay Area and taking into consideration the experience of executive Directors and/or senior management in the Huizhou property market, the Group has planned to explore more investment opportunities in the Huizhou property market and will plan to invest more capital resource in this business segment.

(d) Following the great selling performance in Yu Jing No. 1 Project by Yingtan Water Supply Group and the management's extensive experience in developing real estate projects, Yingtan Water plans to vigorously promote and develop real estate projects in the year of 2019. By principally focusing on construction and adopting an industry planning of cooperating with major sectors including construction material, real estate, financial investment, and prefabricated building, which breaks the development model in traditional construction industry, innovates operating concept and plans strategically under a competitive edge, forming an exclusive developed closed-loop that integrates the comprehensive industry chain. With primarily based on Nanchang City of Jiangxi Province and actively promoting development in Greater Bay Area and other leading cities and regions across China concurrently, and leveraging on the advantage of being platforms of the Company and Sanchuan Wisdom Technology Co., Ltd. to optimize resource value, we will definitely boost the performance of the Group's third industry segment.

4. Actively explore more financing channels for further expansion Group's core businesses

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

The Group will always be committed to achieving its business philosophy of "gaining government confidence, citizen satisfaction, shareholders' recognition and staff contentment". With water supply and new eco-energy industries as its foundation, the Group will enter the world stage and spare no efforts to expand and strengthen the business of the Group.

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

Mr. Lin Yue Hui
Chairman, CEO and executive Director
Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Net profit for the year

Net profit for the year ended 31 December 2018 (the "**FY2018**") was HK$65.58 million, representing a year-on-year increase of approximately 501.56% over HK$10.90 million for the year ended 31 December 2017 (the "**FY2017**"). Comparing with the FY2017, the Board considers that such increase in the net profit were principally attributable to: (i) the increase in revenue and gross profit from renewable energy business as certain new renewable energy projects commenced operation in the FY2018; (ii) an increase of gross profit from construction service for water supply; and (iii) the absence of redemption loss on investment fund which occurred in FY2017. The effects of the aforesaid factors were partially offset by an increase in administrative expense and finance costs due to the acquisition and establishment new renewable energy companies and the provision of impairment loss on a renewable energy project.

The Group's net profit attributable to owners of the Company increased by approximately 113.53% to HK$6.65 million in 2018 from the loss of HK$49.11 million in 2017. Basic profit per share from operations for the FY2018 was at HK0.42 cents when compared with basic loss per share of HK3.08 cents recorded for the FY2017.

Revenue and gross profit

The Group's total revenue generated from operations increased by approximately 35.44% from HK$701.52 million for the FY2017 to HK$950.17 million for FY2018. The increase was mainly due to the aggregate volume of on-grid electricity of projects in operation continued to rise resulting from new projects commenced operation, contributing to a significant increase in revenue.

The Group's gross profit in 2018 was HK$396.73 million, up by approximately 47.57% compared to HK$268.84 million in 2017. The gross profit margin for the FY2018 was a slightly rise of approximately 3.43% in gross profit ratio to 41.75% from 38.32% for the FY2017. The increase in the gross profit margin mainly contributed by water supply related installation and construction service.

During the year under review, the renewable energy business segment become the principal source of the Group's revenue which contributed HK$433.32 million (2017: HK$237.98 million), representing an increase of approximately 82.08% as compared to that of FY2017. Construction services business segment became the second largest revenue generator of the Group and achieved a revenue of HK$306.48 million (FY2017: HK$290.04 million).

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

	Revenue				Gross Profit (G.P)			
	2018 HK$'M	**% to total**	2017 *HK$'M*	% *to total*	**2018 HK$'M**	**G.P. %**	2017 *HK$'M*	G.P. %
Water supply business	**162.60**	**17.11**	129.17	18.41	**61.50**	**37.82**	49.14	38.04
Sewage treatment business	**47.77**	**5.03**	44.33	6.32	**14.52**	**30.40**	13.64	30.77
Construction services business	**306.48**	**32.26**	290.04	41.34	**140.02**	**45.69**	113.30	39.06
Renewable energy business	**433.32**	**45.60**	237.98	33.93	**180.69**	**41.70**	92.76	38.98
Total	**950.17**	**100**	701.52	100	**396.73**	**41.75**	268.84	38.32

Other operating income and expenses

For the FY2018, other operating income and expenses amounted to HK$77.28 million (FY2017: HK$97.76 million) fell by HK$20.48 million. Included in the other operating income was primarily of loan interest income of HK$25.11 million, government subsidy of HK$7.90 million to certain biogas power generation projects, VAT refund of HK$8.83 million, a gain of HK$8.80 million arising from the operation services provided pursuant to the Changsha Operation Contract, net gain on sale of properties of HK$7.42 million and gross rental income of HK$4.56 million from investment properties. The decrease was primarily due to the decrease of income arising from the leasing equipment, project management fee and VAT refund.

Selling and distribution expenses and administrative expenses

For the FY2018, selling and distribution expenses together with administrative expenses ("**Total Expenses**") collectively increased by HK$54.68 million to HK$277.34 million (FY2017: HK$222.66 million). The rise was primarily attributable to the acquisition and establishment of new companies in the PRC which caused the increment of staff costs and associated operating expenses. These expenses mainly consisted of staff costs of HK$153.66 million, rent and rates of HK$9.32 million, legal and professional fee of HK$14.67 million and depreciation together with amortisation of HK$25.26 million. The ratio of Total Expenses for the FY2018 represented 29.19% of revenue, a drop of approximately 2.55% from 31.74% for the FY2017.

Finance costs

Finance costs are mainly interests on fixed coupon bonds. For the FY2018, the finance costs were HK$47.56 million (FY2017: HK$33.78 million), an increase of HK$13.78 million as compared to that of last year. The increase was due to the issue of new fixed coupon bonds in 2018 which was used to repayment of debts and enlarged the Group's investment in renewable energy projects in PRC.

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

Included in net loss on financial assets at fair value through profit or loss ("**FVPL**") comprised (i) HK$32.21 million for the fair value loss on listed equity securities; and (ii) HK$5.43 million for the gain on disposal of listed equity securities. For the FY2018, net loss on FVPL recorded HK$26.78 million, a decrease of HK$13.95 million from the loss of HK$40.73 million for the FY2017. The substantial decrease in net loss on FVPL was mostly due to the redemption loss on of the investment fund which occurred in FY2017. The change in fair value on securities trading is determined based on the quoted market bid prices available on the Stock Exchange.

Impairment loss recognised on other intangible assets and goodwill

For the FY2018, the impairment loss on other intangible assets and goodwill recorded HK$10.09 million (FY2017: Nil) and HK$8.59 million (FY2017: HK$3.82 million) respectively, which was provided for Nanjing Feng Sheng New Technology Limited Liability Company* 南京豐尚新能源科技有限公司 ("**Nanjing Feng Sheng**"). The project operated by Nanjing Feng Sheng is Nanjing Jiaozishan Project. The reasons of impairment loss provided due to (i) reduce new garbage delivered to Jiaozishan landfill site which caused the volume of landfill gas collected and the electricity generated less than expected; and (ii) the plan to use biomass pyrolysis and gasification power generation technology to replace the biogas power generation was terminated this year. All these factors caused the recoverable amounts less than the carrying amount of Nanjing Jiaozishan Project.

MANAGEMENT DISCUSSION AND ANALYSIS

Share of results from associates

For the FY2018, the Group had five associated companies, including 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("**Jinan Hongquan**"), 30% equity interest in Super Sino Investment Limited ("**Super Sino**") together with its various wholly-owned subsidiaries ("**Super Sino Group**"), 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited ("**Yu Jiang Hui Min**") 25% of Yingtan Yuanda Construction Industry Co., Ltd.* and 49% of Ziyang Oasis Xinzhong Water Environmental Protection Technology Co., Ltd.* ("**Ziyang Oasis Xinzhong Water**"). For the FY2018, the Group shared the profit of HK$2.69 million (FY2017: loss of HK$3.96 million) which was mainly from the loss of HK$1.21 million from Jinan Hongquan and the profit of HK$4.19 million from Super Sino Group.

Income tax

For the FY2018, the income tax increased by HK$7.45 million to HK$41.65 million in line with the good performance of the Group (FY2017: HK$34.20 million). No provision for Hong Kong Profits Tax has been made in the financial statements for the FY2018 and FY2017 as the Group's operations in Hong Kong did not earn any income subject to Hong Kong Profits Tax. Taxation for the PRC operations is charged at the statutory rate of 25% of the assessable profits under taxation ruling in the PRC. During the year, certain renewable energy companies in PRC are subject to tax concessions under the relevant tax rules and regulation.

Profit attributable to Owners of the Company

For the FY 2018, profit attributable to owners of the Company was HK$6.65 million (FY2017: loss of HK$49.11 million), an increase of HK$55.75 million primarily due to more profit generated from wholly-owned renewable energy projects and the absence of redemption loss on investment fund which occurred in FY2017.

Exposure to Fluctuations in Exchange Rates

Almost all of the Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in RMB but the Company's financial statements are denominated in HK$, which is also the functional currency of the Company. For the FY2018, RMB recorded a depreciation against HK$ resulted in a net exchange loss of HK$0.53 million (FY2017: exchange gain of HK$3.48 million). The Group has not adopted any hedging policies. Due to recent fluctuation of RMB exchange rate against HK$, the Group had been monitoring the foreign exchange exposures closely and hedging any significant foreign currency exposure in order to minimise the exchange risk, if necessary.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the FY2018, the Group financed its operations with internally generated cash flows, bank loans and other borrowings. The Group recorded cash and cash equivalents of HK$349.87 million (FY2017: HK$297.88 million) including cash held at financial institutions of HK$2.37 million (FY2017: HK$0.35 million) and an overdraft held at financial institutions of HK$55.55 million (FY2017: HK$20.27 million). The increase in cash and bank balance of the Group was mainly due to the issuance of bonds and net cash flow from operating activities. With the steady operating cash flows, the Group should have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in HK$ and RMB.

The net current assets for the Group in 2018 were HK$422.73 million (FY2017: HK$368.24 million). The current ratio (current assets over current liabilities) is 1.44 times as at FY2018 (FY2017: 1.43 times).

Net asset value was HK$1,762.41 million (FY2017: HK$1,819.64 million). Net asset value per share was HK$1.10 (FY2017: HK$1.14).

As at FY2018, the Group's consolidated non-current assets increased by HK$274.38 million to HK$2,182.21 million (FY2017: HK$1,907.83 million) mainly due to (i) further expansion of renewable energy business in 2018 by acquiring more related projects which made property, plant and equipment and operating concession to increase; (ii) acquisition of 100% equity interest of Jiangxi Deyin Industrial Co., Ltd.* (the "Jiangxi Deyin") which made the amount of land use right to increase; and (iii) the commencement of building construction relating to the Honghu Blue Valley Property which is planned to be completed in October 2019.

INVESTMENT PROPERTIES

For the FY2018, the Group held the following investment properties for leasing:

Location	Usage	Approximately gross floor area (square meters)	Lease terms	% of occupancy rate	The Group's interest (%)
1 **Xiabu Centre** Xiabu Water Plant Control Centre No.1 Qilin East Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC	Commercial	16,781	Long	96.15%	51%
2 **Yihai International Building** Room C-103, Yihai International Street, 200 meters south of Phoenix Street and Lanting Road, Hedong District, Linyi City, Shandong Province, the PRC	Commercial	151.96	Long	100%	60%
3 **Yichun Properties** No. 542, Mingyue North Road, Yuanzhou District, Yichun City, Jiangxi Province, the PRC	Commercial	556.15	Long	100%	51%

For the FY2018, the carrying value of investment properties recorded HK$73.35 million (FY2017: HK$46.79 million) including HK$64.93 million of the Xiabu Centre, HK$1.71 million of Yihai International Building and HK$6.71 million of Yichun Properties. The increase was due to the revaluation of fair value of investment properties and increased rentable area in Xiabu Centre, bringing in extra rental income. For the FY2018, the gross rental income from investment properties less direct outgoing recorded HK$3.92 million (FY2017: HK$1.55 million) and recognised fair value gain on investment properties of HK$12.48 million (FY2017: HK$1.22 million).

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER NON-CURRENT ASSETS

During 2015, Yingtan Water entered into agreements with a local government office to transfer all units of the investment property (the "**Resumption Properties**") to the local government for the development of a composite project (the "**New Premises**"), which Yingtan Water received compensation including transfer of certain construction floor areas of the New Premises (the "**Yingtan New Premise**s"). For the FY2018, the construction of New Premises was completed in December 2018. The carrying value of the Yingtan New Premises was HK$19.75 million (FY2017: HK$20.83 million).

INVENTORIES

As at 31 December 2018, inventories of HK$187.57 million (31 December 2017: HK$193.76 million) mainly comprised of properties held for sale of HK$102.62 million (31 December 2017: HK$156.99 million) and properties under development of HK$42.81 million for the construction of premises in Nanjing, the PRC (31 December 2017: Nil). Properties held for sale represented the construction of new commercial and residential buildings by Xiang Rui Property at Yingtan City, Jiangxi Province, the PRC which is entirely owned by Yingtan Water. The properties namely Yu Jing No. 1* (御景壹號) located at No. 8 Xinjiang North Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC has been completed in July 2017 with a total saleable area of 35,370 sq.m., which comprised of 372 residential apartments and 105 retail shops. The pre-sales of the project had commenced since October 2014. As at 31 December 2018, there were 367 residential apartments and 7 retail shops being sold (31 December 2017: 172 residential apartments and 6 retail shops). For the FY2018, the income and net gain recognised from the sale of properties were HK$57.84 million and HK$7.42 million respectively (For the FY2017: income of HK$19.45 million and net gain of HK$0.87 million).

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at 31 December 2018, the fair value of securities investments of the Group including held-for-trading investment and held-for-long term investment recorded HK$138.60 million (FY2017: HK$59.18 million) representing 3.89% of the total assets value of HK$3,560.70 million as at FY2018 (FY2017: total assets value of HK$3,127.55 million). All securities investments of the Group were listed in Hong Kong. The following analysis was the Group's top 10 investments at the end of reporting period:

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 December 2018	Effective interest held as at 31 December 2018	Initial investment cost *HK$'000*	Market value as at 31 December 2018 *HK$'000*	Realised gain/ (loss) for the year ended 31 December 2018 *HK$'000*	Accumulated unrealised holding gain/ (loss) on revaluation *HK$'000*	Percentage to total assets value of the Group as at 31 December 2018	Classification	Dividend received/ receivable during the year
Common Splendor International Health Industry Group Ltd	286	Securities investments and property development	66,900,000	2.23%	54,155	42,816	(167)	(11,339)	1.20%	FVPL	–
China Best Group Holding Ltd	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities	157,500,000	3.10%	26,167	31,028	88	4,861	0.87%	FVOCI	–
Dafeng Port Heshun Technology Co. Ltd	8310	Trading business, the provision of integrated logistics freight services and relevant supporting services as well as petrochemicals products storage business	51,590,000	4.01%	35,143	20,120	(2,828)	(15,023)	0.57%	FVPL	–
Ms Concept Ltd	8447	Provision of catering services in Hong Kong	39,750,000	3.98%	11,062	8,348	331	(2,714)	0.23%	FVPL	–
China Regenerative Medicine International Ltd	8158	Research and development of bio-medical and healthcare products, medical techniques; provision of the production and sales of tissue engineering products and its related by-products; sales and distribution of medical products and equipment	92,500,000	0.53%	15,367	6,938	–	(8,429)	0.19%	FVOCI	–

MANAGEMENT DISCUSSION AND ANALYSIS

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 December 2018	Effective interest held as at 31 December 2018	Initial investment cost	Market value as at 31 December 2018	Realised gain/ (loss) for the year ended 31 December 2018	Accumulated unrealised holding gain/ (loss) on revaluation	Percentage to total assets value of the Group as at 31 December 2018	Classification	Dividend received/ receivable during the year
					HK$'000	HK$'000	HK$'000	HK$'000			
Hong Kong Finance Investment Holding Group Ltd	7	Trading of natural resources and petrochemicals; mineral mining, oil and gas exploration and production; the provision of financial services and property investment	7,010,000	0.18%	6,460	6,730	58	270	0.19%	FVPL	–
HK Life Sciences and Technologies Group Ltd	8085	Anti-aging and stem cell technology businesses; trading business; money lending business; and securities investment	169,100,000	2.97%	11,945	6,088	–	(5,857)	0.17%	FVOCI	–
Fortunet E-Commerce Group Ltd	1039	Manufacture and sales of axles and related components; trading of goods through an electronic distribution platform, mobile applications and other related means in PRC	6,500,000	0.36%	6,761	4,420	(1,092)	(2,341)	0.12%	FVPL	–
China Tangshang Holdings Ltd	674	Exhibition related business, money lending business food and beverages, property sub-leasing, development and investment business, property sub-leasing, development and investment business	22,460,000	2.08%	4,846	4,334	–	(511)	0.12%	FVOCI	–
Fy Financial (Shenzhen) Co., Ltd. – H Shares	8452	Financial leasing, provision of factoring and advisory services and the trading of medical equipment in the PRC	4,400,000	4.90%	5,153	3,915	–	(1,237)	0.11%	FVOCI	–
					177,059	134,737	(3,610)	(42,320)			

FVPL: Financial asset at fair value through Profit or loss

FVOCI: Financial asset at fair value through other comprehensive income

The above top 10 securities investments in aggregate of HK$134.74 million represented 97.21% of the total market value of the portfolio investments.

The Board acknowledges that the performance of securities are affected by the degree of volatility in the Hong Kong stock market and susceptible to other external factor that may affect their value. Accordingly, in order to mitigate possible financial risk related to the securities, the Board will closely from time to time to monitor the investment portfolio and capture opportunities arising from securities trading and investments in a prudent manner and balance investment risks. Notwithstanding, the overall result of securities for the FY2018 was in a loss position, the Group believes that following the implementation of the favorable financial policies in Hong Kong, such as the Shanghai-Hong Kong Stock Connect, mutual recognition of funds and the Shenzhen-Hong Kong Stock Connect, the Group is optimistic about the future securities markets in Hong Kong.

TRADE AND OTHER RECEIVABLES

As at 31 December 2018, the Group's trade and other receivables were approximately HK$628.12 million (31 December 2017: HK$631.98 million). These comprised of: (i) trade receivables of HK$186.22 million, (ii) other receivables of HK$108.76 million, (iii) loan receivables of HK$77.15 million and (iv) deposits and prepayments of HK$256.00 million. As at 31 December 2018, trade receivables increased by HK$80.05 million to HK$186.22 million which was in line with the increase of revenue. (31 December 2017: HK$106.17 million). The average turnover period of the trade receivables as at 31 December 2018 were 84 days (31 December 2017: 44 days). The Group allows a credit period of 0 day to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period.

As at 31 December 2018, other receivables decreased by HK$269.08 million to HK$108.76 million (31 December 2017: HK$377.84 million) primarily due to money received for the redemption of fund and the deposits for bidding of land and for goods procurement being fully refunded. Other receivables included mainly refundable deposit of HK$29.60 million for acquisition of PRC Company and tax recoverable of HK$25.5 million. Subsequent to the year-end, the termination agreement for the acquisition was signed and the relevant deposit was fully refunded.

As at 31 December 2018, loans receivables decreased by HK$7.33 million to HK$77.15 million (31 December 2017: HK$84.48 million) represented loans to unrelated parties which are interest-bearing at rates ranging from 4% to 15% per annum and maturity ranging from 6 months to 36 months. Subsequent to the year-end, HK$53.51 million received for the settlement of loan.

As at 31 December 2018, deposits and prepayments increased by HK$192.51 million to HK$256.00 million (31 December 2017: HK$63.49 million) which mainly represented prepayment of HK$80.38 million for construction projects and deposit of HK$70 million paid for the acquisition of oversea project. Subsequent to the year end, the deposit was fully refunded due to failure to acquire the oversea project.

MANAGEMENT DISCUSSION AND ANALYSIS

LIABILITIES AND GEARING

As at 31 December 2018, the Group's total liabilities recorded HK$1,798.30 million (31 December 2017: HK$1,307.92 million). The increase of HK$490.39 million was attributable to (i) the issue of new bonds, (ii) acquiring more electricity power generators for the expansion of renewable energy business by entering into finance lease arrangements with leasing companies; and (iii) received deposits for the disposal of two associates. Total liabilities mainly comprised of the bank and other borrowings of HK$698.32 million (31 December 2017: HK$609.38 million), trade and other payables of HK$297.37 million (31 December 2017: HK$219.80 million), obligation under finance lease of HK$208.67 million (31 December 2017: HK$102.26 million) and deferred tax liabilities of HK$80.00 million (31 December 2017: HK$80.07 million). Except for the following the issuance of bonds and non-financial institution loan denominated in HK$, borrowings were mainly denominated in RMB.

The Group's gearing ratio as at 31 December 2018 was 50.50% (31 December 2017: 41.82%). The ratio was calculated by dividing total liabilities of HK$1,798.30 million (31 December 2017: HK$1,307.92 million) over total assets of the Group of HK$3,560.71 million (31 December 2017: HK$3,127.55 million).

As at 31 December 2018, the Group's total bank and other borrowings were HK$698.32 million (31 December 2017: HK$609.38 million). For the maturity profile, refer to the table below:

Debt Analysis

	31 December 2018		31 December 2017	
	HK$'000	%	*HK$'000*	%
Classified by maturity				
– repayable within one year				
Bank borrowings	55,362	7.93	70,833	11.62
Other loans	40,319	5.77	253,586	41.62
	95,681	13.70	324,419	53.24
Classified by maturity				
– repayable more than one year				
Bank borrowings	57,915	8.30	96,267	15.80
Other loans	544,725	78.00	188,690	30.96
	602,640	86.30	284,957	46.76
Total bank and other borrowings	698,321	100	609,376	100
Classified by type of loans				
Secured	113,277	16.22	131,079	21.51
Unsecured	585,044	83.78	478,297	78.49
	698,321	100	609,376	100
Classified by type of interest				
Fixed rate	435,758	62.40	533,081	87.48
Variable-rate	200,460	28.71	10,806	1.77
Interest free rate	62,103	8.89	65,489	10.75
	698,321	100	609,376	100

MANAGEMENT DISCUSSION AND ANALYSIS

BONDS AND NON-EQUITY FINANCING

The issuance of 2017 bonds

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

Placing of Bond I

On 25 October 2017, the Company entered into the Placing Agreement (the "**Placing Agreement I**") with Well Link Securities Limited (the "**Placing Agent I**"), pursuant to which the Placing Agent I on a best effort basis arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond I**"), within 70 days from the date of the Placing Agreement I. On 12 December 2017, the Company has completed the issuance of the Bond I to the placee(s) in an aggregate principal amount of HK$100 million. As at 31 December 2018, the outstanding Bond I amounted HK$98.36 million and was classified as an other loan (31 December 2017: HK$96.90 million).

Placing of Bond II

On 4 December 2017, the Company entered into the Placing Agreement (the "**Placing Agreement II**") with Ayers Alliance Securities (HK) Limited, Mayfair & Ayers Financial Group Limited (formerly known as "**Mayfair Pacific Financial Group Limited**") and Sincere Securities Limited (the "**Placing Agents II**"), to use its reasonable endeavors to procure independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount not less than HK$100 million (the "**Bond II**"). The expiry date of placing is further extended to 30 May 2019 after signed several extension agreements with the relevant parties on 31 May 2018 and 30 November 2018. As at 31 December 2018, the outstanding Bond II amounted HK$157.54 million and was classified as an other loan (31 December 2017: HK$17.95 million). Up to the date of this report, the Company has issued of the Bond II to the placees in an aggregate principal amount of HK$194.10 million. The placing of Bond II has not yet been completed.

Placing of Bond III

On 11 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement III**") with Prior Securities Limited (the "**Placing Agent III**") pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond III**"), within 365 days from the date of the Placing Agreement III. On 10 January 2019, the Company and Placing Agent III signed the extension agreement to extend the placing period from 365 days to 730 days. As at 31 December 2018, the outstanding Bond III amounted HK$12.78 million and was classified as an other loan (31 December 2017: Nil). Up to the date of this report, the Company has issued of the Bond III to the placees in an aggregate principal amount of HK$18 million. The placing of Bond III has not yet been completed.

Placing of Bond IV

On 18 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement IV**") with Placing Agent III pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of 90 months in aggregate principal amount of up to HK$100 million ("**Bond IV**"), within 365 days from the date of the Placing Agreement IV. On 17 January 2019, the Company and Placing Agent III signed the extension agreement to extend the placing period from 365 days to 730 days. As at 31 December 2018, the outstanding Bond IV amounted HK$15.81 million and was classified as an other loan (31 December 2017: Nil). Up to the date of this report, the Company has issued of the Bond IV to the placees in an aggregate principal amount of HK$20 million. The placing of Bond IV has not yet been completed.

Placing of Bond V

On 24 August 2018, the Company entered into the Placing Agreement (the "**Placing Agreement V**") with Mayfair & Ayers Financial Group Limited (the "**Placing Agent V**"), to use its reasonable endeavors to procure independent placees to subscribe for 5% coupon unlisted bonds with a term of one year in aggregate principal amount not less than HK$100 million (the "**Bond V**"), from the date of the Placing Agreement V and ending on 30 August 2019. As at 31 December 2018, the outstanding Bond V amounted to HK$19.42 million and was classified as an other loan (31 December 2017: Nil). Up to the date of this report, the Company has issued of the Bond V to the placees in an aggregate principal amount of HK$25.80 million, the placing of Bond V has not yet been completed.

Placing of Bond VI

On 15 January 2019, the Company entered into the Placing Agreement (the "**Placing Agreement VI**") with the Placing Agent III pursuant to which the Placing Agent III on a best effort basis, to arrange independent Placees to subscribe for 5% per annum for Bonds (A) and 5.5% per annum for Bonds (B) (the "**Bond VI**") with a term of one year and two year respectively, up to an aggregate principal amount of HK$200 million within 365 days from the date of the Placing Agreement VI. Up to the date of this report, the Company has issued of the Bond VI for Bonds (B) to the placees in an aggregate principal amount of HK$2.00 million. The placing of Bond VI has not yet been completed.

As at 31 December 2018, the aggregate bonds payable including Bond I, Bond II, Bond III, Bond IV and Bond V recorded HK$303.91 million which were utilized as general working capital and/or acquisition activities (31 December 2017: HK$114.85 million).

TRADE AND OTHER PAYABLES

As at FY2018, the Group's trade and other payables were approximately HK$297.37 million (FY2017: HK$219.80 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

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

During the FY2018, the Group incurred capital expenditures amounting to HK$119.26 million (FY2017: HK$48 million) for acquisition of concession intangible assets.

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY MANAGEMENT

For the FY2018, there had been no material change in the Group's funding and treasury policies. During the year, the Group generally finances its business operations and capital expenditure with internally generated cash flow, interest-bearing bank/non-financial institution loans and the issuance of bonds. To support medium to long term funding requirements, the Group also considers via accessing to funding from capital markets, subject to market conditions. On the other hand, the management of the Group closely reviews the trade receivable balances and any overdue balances on an ongoing basis and only trade with creditworthy parties. It has been the policy of the Group to maintain adequate liquidity at all times to meet its obligations and commitments as and when they fall due. The Group's financial risk management strategies include active managing firm level liquidity and interest rate profile via obtaining substantial long term funding sources, with diversifying term structures and funding instruments.

BUSINESS REVIEW

The Group continued its strategy to focus on core businesses. For the year under review, the Group recorded a steady growth in its "city water supply operation and construction" and "environment protection" segments. For the FY2018, the revenue of the Group amounted to HK$950.17 million, representing an increase of 35.44% compared with the FY2017 and the net profit attributable to equity holders of the Company amounted to HK$6.65 million, representing an increase of 113.53% over 2017.

Water Supply Business

Due to continuous urbanization and construction of water supply facilities in county-level regions, the national running water supply capacity is expected to keep growing annually in the five coming years. The "Nineteenth National Congress" report has indicated that the idea of "lucid waters and lush mountains are invaluable assets" must be firmly established and put into practice through the rigorous implementation of an ecological protection system. With the "Thirteenth Five-Year Plan" being implemented at full speed, the progress of urbanisation development and urban-rural integrated water supply will continue to accelerate. Driven by the national policies, the water supply services industry is expected to see huge market opportunities and potential in the future. Accordingly, water supply industries will benefit from the rapidly accelerating urbanization in China and the Chinese governmental policies supporting the environmental protection industry.

There are five city water supply projects of the Group (including two water supply projects of associated companies) well spread in various provincial cities and regions across China, including Jiangxi, Shandong and Hainan (FY2017: five water supply projects). The daily aggregate water supply capacity was approximately 1.99 million tonne (including the capacity of 1.60 million tonne of two associated companies) (FY2017: 1.99 million tonne). Following the completion of disposal of associated companies including 30% equity interest of Super Sino Group and 35% equity interest of Jinan Hongquan, the number of water supply projects and daily aggregate water supply capacity will be reduced to three and 390,000 tonne respectively. For the FY2018, the revenue and gross profit from water supply business amounted to HK$162.60 million and HK$61.50 million respectively, representing 17.11% and 15.50% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 37.82% (FY2017: 38.04%). The increase in revenue by HK$33.43 million to HK$162.60 million was due to the increase in volume of water sold and the increase in water tariff in Yichun Water. But the gross profit slightly dropped by 0.22% to 37.82% due to addition cost incurred to pay water source together with the increase of maintenance capital expenditure in Linyi Fenghuang. The average rates for the water supply ranged from HK$1.78 to HK$2.57 per tonne (2017: from HK$1.43 to HK$3.10 per tonne).

Analysis of water supply projects on hand is as follows:

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

Sewage treatment business

The "13th Five-Year" National Urban Wastewater Treatment and Recycling Facilities Construction Plan (《"十三五"全國城鎮污水處理及再生水利用設施建設規劃》) issued by the PRC government states that, as the wastewater treatment is a key link to improve the urban water ecological environment, it will achieve full coverage of urban wastewater treatment facilities by the end of 2020. Under the multiple guidance by the investment and policies of the Chinese government, the sewage treatment industry will continue to benefit from favorable policies for the environmental protection industry.

There are three sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (FY2017: three sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 170,000 tonne (FY2017: 170,000 tonne) generating a revenue of HK$47.77 million and gross profit of HK$14.52 million, representing 5.03% and 3.66% of the Group's total revenue and total gross profit respectively. The gross profit ratio was 30.40% (FY2017: 30.77%). The slightly decrease in gross profit ratio by 0.37% was due to the growth of operating cost including electricity cost, salary expenses and maintenance capital expenditure. Upon completion of Mingyue Mountain Project and Jinxiang Project, the number of sewage treatment plants will increase to five projects and the daily aggregate sewage disposal capacity will increase by 50,000 tonne to 220,000 tonne. The construction of Mingyue Mountain Project and Jinxiang Project are expected to be completed in October of 2019 and in May of 2019 respectively. The average rates for sewage treatment ranged from HK$0.64 to HK$1.25 per tonne (2017: from HK$0.67 to HK$1.33 per tonne).

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of sewage treatment projects on hand is as follows:

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

Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's second major sources of revenue and gross profit contributing HK$306.48 million and HK$140.02 million respectively, representing 32.26% and 35.29% of the Group's total revenue and total gross profit respectively. The overall gross profit ratio was 45.69% (FY2017: 39.06%). The increase in gross profit ratio was due to (i) more projects with good profit margin awarded by the local property developers resulting from the real estate market recovery in Yichun City and Yingtan City, Jiangxi Province, PRC; and (ii) cost of construction material reduced.

	Revenue				Gross Profit (G.P. ratio)			
	2018 *HK$M*	**%** **to total**	2017 *HK$M*	% *to total*	**2018** *HK$M*	**G.P** **%**	2017 *HK$M*	G.P. %
Water supply related installation and construction income	**242.72**	**79.20**	241.56	83.29	**134.66**	**55.48**	106.58	44.12
Water supply and sewage treatment infrastructure construction income	**63.76**	**20.80**	48.48	16.71	**5.36**	**8.41**	6.72	13.86
	306.48	**100**	290.04	100	**140.02**	**45.69**	113.30	39.06

Exploitation and sale of renewable energy business

In the report of the 19th National Congress in October 2017 and at the National Environmental Protection Conference in May 2018, President Xi Jinping pointed out and emphasized that "**ecological environment is the most inclusive benefits to people's wellbeing**", thus we must strive for the harmonious coexistence between man and nature and adhere to the basic national policy on reservation of resources and protection of our environment. We must respect the environment like our own lives, implement the most stringent regulations on protection of our ecological environment, foster a green development mode, and attach the greatest importance to environmental protection and ecological governance in a long-lasting, systematic, and industrialized manner. President Xi's remarks have already pointed us the right direction. Benefiting from this continuous policy support, biogas power generation is a typical eco-friendly new energy that is able to turn waste into treasure. In addition to the existing preferential policies on taxation, the Development and Reform Commission of Guangdong Province has issued the Notice on Improving the Management of On-grid Price for Power Generation Projects with Recyclable Energies (關於改進可再生能源發電項目上網電價管理方式有關問題的通知) in 2018 which has simplified the project approval process to facilitate the expansion of the projects. In 2019, the Group will actively explore the biomass pyrolysis & gasification technology, sludge treatment technology and biological enzyme technology, while pursuing opportunities to enter the environmental protection-related fields such as garbage disposal, garbage removal and sludge treatment, aiming for diversified development of the Group.

Up to the date of this report, the Group has 36 solid waste treatment projects, of which 27 have commenced operation, with a total installed capacity of 135MW, the remaining 9 are under construction, with an estimated total installed capacity of 24MW. During the year, the Group secured 7 new projects in Haicheng, Laizhou, Anlu, Guangzhou Huadu, Zhijiang, Nanning, and Ziyang, with an estimated total installed capacity is 22MW.

For the FY2018, the revenue and gross profit recorded HK$433.32 million and HK$180.69 million respectively. Compared with the FY2017, the revenue and gross profit increased by HK$252.63 million and HK$87.93 million respectively. Such increase was because 25 projects have operation in 2018 (FY2017: 20 projects). The overall gross profit ratio slightly rose by 2.72% to 41.70% (FY2017: 38.98%). The average electricity rate was HK$0.60 per kilowatt-hour and the average CNG rate was HK$1.86 per m^3 (2017: average electricity rate HK$0.63 per kilowatt-hour and the average CNG rate was HK$2.06 per m^3).

	Revenue				Gross Profit (G.P)			
	2018 HK$'M	**% to total**	2017 HK$'M	% to total	**2018 HK$'M**	**G.P %**	2017 HK$'M	G.P %
Exploitation and sale of renewable energy business								
– Sale of electricity	**386.77**	**89.26**	194.60	81.77	**169.38**	**43.80**	89.12	45.79
– Sale of compressed natural gas	**19.52**	**4.50**	29.83	12.54	**(3.09)**	**N/A**	(3.83)	N/A
– Service income from collection of landfill gas	**27.03**	**6.24**	13.55	5.69	**14.40**	**53.27**	7.47	55.13
Total	**433.32**	**100**	237.98	100	**180.69**	**41.70**	92.76	38.98

N/A: Not applicable

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of renewable energy projects on hand as follows:

	Project name	Provincial cities in PRC/ Indonesia	Business mode	Equity interest held by Company (%)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
1	Nanjing Jiaozishan	Jiangsu	Power generation	100	October 2013	June 2025
2	ZhuZhou Biogas	Hunan	Power generation	100	November 2014	October 2023
3	Shenzhen Pingshan	Guangdong	Power generation	100	January 2016	September 2024
4	Baoji	Shaanxi	Power generation	100	May 2016	April 2028
5	Chenzhou Environmental	Hunan	Power generation	100	March 2016	February 2032
6	Huayin Heng Yang	Hunan	Power generation	100	March 2016	October 2029
7	Chongqing Camda	Chongqing	Power generation	100	May 2016	May 2028
8	Hainan Camda	Hainan	Power generation	100	May 2016	*Note 1*
9	Wuzhou Landfill	Guangxi	Power generation	100	September 2016	September 2022
10	Changsha Operation Contract*	Hunan	Power generation	–	May 2014	October 2039
11	Changsha Qiaoyi Landfill Site*	Hunan	CNG/Power generation	100	CNG: December 2015 Power generation: October 2017	
12	Shenzhen Xiaping Landfill Site	Guangdong	CNG/Power generation	88	CNG: July 2015 Power generation: January 2018	April 2030
13	Liuyang Biogas	Hunan	CNG/Power generation	100	CNG: July 2016 Power generation: September 2017	October 2038
14	Qingshan Landfill Site	Guangdong	CNG/Power generation	100	CNG: May 2016 Power generation: October 2016	July 2024
15	He County	Anhui	Operation of landfill	100	2020	February 2036
16	Yichun South Suburban	Jiangxi	Power generation	100	July 2017	September 2026
17	Ningbo Qiyao	Zhejiang	Power generation	100	February 2017	June 2028
18	Shandong Qiyao	Shandong	Power generation	100	May 2017	November 2029
19	Datang Huayin	Hunan	Power generation	100	February 2017	March 2024
20	Chengdu City	Sichun	Power generation	49	May 2017	December 2027
21	Xinhua	Hunan	Power generation	100	November 2017	December 2026
22	Zhangjiakou	Hebei	Power generation	70	October 2018	*Note 1*
23	Fengcheng	Jiangxi	Power generation	100	January 2018	March 2032
24	Anqiu City	Shandong	Power generation	100	March 2018	*Note 1*
25	Danzhou	Hainan	Power generation	100	December 2019	*Note 1*
26	Dongyang	Zhejiang	Power generation	90	March 2018	June 2025
27	Haicheng	Liaoning	Power generation	100	June 2019	*Note 1*
28	Anlu	Hubei	Power generation	90	January 2019	February 2030

	Project name	Provincial cities in PRC/ Indonesia	Business mode	Equity interest held by Company (%)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
29	Laizhou	Shandong	Power generation	100	April 2019	February 2028
30	Jakarta TPST	Jakarta	Power generation	94	February 2018	December 2023
31	Guangzhou Huadu	Guangdong	Power generation	100	May 2019	June 2023
32	Zhijiang	Hubei	Power generation	51	December 2019	*Note 1*
33	Nanning	Guangxi	Power generation	100	October 2019	April 2028
34	Ziyang	Sichun	Power generation	49	July 2019	November 2026
35	Hainan Sanya	Hainan	Power generation	100	March 2019	January 2029
36	Lingao	Hainan	Power generation	100	May 2020	*Note 1*

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

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

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

A. Haicheng Landfill Project

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

MANAGEMENT DISCUSSION AND ANALYSIS

B. Anlu City Landfill Project

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

C. Laizhou City Landfill Project

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

D. Jiangsu Tangyuan Project

On 8 March 2018, Shenzhen New China Water, Jiangsu Tangyuan Biological Power Generation Co., Ltd.* ("**Jiangsu Tangyuan**") (江蘇唐源生物發電有限公司) and Tang Yongcheng ("**Mr. Tang**"), the existing shareholder of Jiangsu Tangyuan entered into a Share Subscription and Capital Injection Agreement (the "**Agreement**") ("**Jiangsu Tangyuan Project**"). Upon completion of capital injection of RMB10.40 million (equivalent to approximately HK$12.49 million) by Shenzhen New China Water, the registered capital of the Jiangsu Tangyuan will increase from RMB10 million to RMB20.4 million (equivalent to approximately HK$24.49 million). Shenzhen New China Water and Mr. Tang will hold 51% and 49% equity interest of Jiangsu Tangyuan respectively. The main business of Jiangsu Tangyuan is biomass power generation, hot water, and sale of carbonized rice husks. Jiangsu Tangyuan has commenced its operation in September 2017. The total power generation capacity is amounting to 5,000 kilowatt per hour and an on-grid electricity price RMB0.76 per kilowatt hour. In addition, the annual production of carbonized rice husks is 6,000 tonne and an estimated selling price RMB2,600 per tonne. Owing to the result of due diligence not satisfactory, the relevant parties mutually agreed to terminate the Agreement and none of the parties shall have any claims against the other party arising out of the Agreement. No capital injection had been paid to the Jiangsu Tangyuan Project by Shenzhen New China Water.

E. Guangzhou Huadu Landfill Project

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

F. Zhijiang Landfill Project

On 14 August 2018, Shenzhen New China Water entered into the capital injection agreement with Chufeng (Zhijiang) Environmental Service Co., Ltd.* ("**Chufeng (Zhijiang)**") (楚豐(枝江)環境服務有限公司) to acquire 51% equity interest of Zhijiang Xinzhongshui Chufeng Environmental Protection Technology Co., Ltd.* (枝江市新中水楚豐環保科技有限公司) ("**Zhijiang Landfill Project**") at a consideration of RMB5.20 million (the "**Capital Injection**") (equivalent to approximately HK$6.17 million). Upon the completion of Capital Injection by Shenzhen New China Water, the registered capital of Zhijiang Landfill Project will increase from RMB5 million to RMB10.20 million. Shenzhen New China Water and Chufeng (Zhijiang) will hold 51% and 49% equity interest of Zhijiang Landfill Project respectively. Zhijiang Landfill Project principally engaged in urban domestic waste landfill gas treatment and biomass energy power generation and sales. The collection period of landfill gas is until the volume of landfill gas generated from Zhijiang Landfill reduced to the level of which could not be further utilized. The Zhijiang Landfill Project is currently capable of processing garbage of 250 tonne per day, with an estimate useful life of not less than 15 years. The total power generation capacity is amounting to 2,000 kilowatt per hour and an on-grid electricity price RMB0.587 per kilowatt hour. Up to the date of this report, the Capital Injection has not been completed.

G. Acquisition of the entire equity interest of Guangxi Ruirong Energy Technology Co., Ltd.*

On 12 September 2018, Zhejiang Zhongrui Low Carbon Technology Co., Ltd.* ("**Zhejiang Zhongrui**") (浙江中睿低碳科技有限公司) and Shenzhen New China Water entered into the share transfer agreement to acquire 100% equity interest of Guangxi Ruirong Energy Technology Co., Ltd.* ("**Guangxi Ruiron**") (廣西睿榮能源科技有限公司) at a consideration of RMB9.50 million (equivalent to approximately HK$10.87 million). Guangxi Ruiron is principally engaged in the business of environmental protection in the PRC. Pursuant to the share transfer agreement, Zhejiang Zhongrui shall procure Guangxi Jinshui Construction Development Co., Ltd.* (廣西金水建設開發有限公司) to re-sign the landfill gas power generation agreement with Guangxi Ruiron for a period of 10 years (the "**Major Contract**"). For the Major Contract, the total power generation capacity is amounting to 6,000 kilowatt per hour and an estimated on-grid electricity price RMB0.604. The acquisition was completed in January 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

H. Ziyang City Landfill Project

On 9 November 2018, Ziyang Oasis Xinzhong Water entered into the resource utilization agreement with Ziyang City Domestic Waste Treatment Plant* (the "**Ziyang City Plant**") (資陽市城市生活垃圾處理廠), pursuant to which Ziyang City Plant granted the operational right to Ziyang Oasis Xinzhong Water to operate the Ziyang City Domestic Waste Landfill Gas Power Generation Project * (資陽市城市生活垃圾填埋氣發電項目) ("**Ziyang City Landfill Project**") for a period of 8 years until November 2026. Shenzhen New China Water and Chengdu Lvzhou Rong Environment (Group) Co., Ltd.* ("**Chengdu Lvzhou Rong**") (成都綠州市容環境(集團)有限責任公司) formed a project company named Ziyang Oasis Xinzhong Water in November 2018. Shenzhen New China Water and Chengdu Lvzhou Rong will invest RMB2.45 million (equivalent to approximately HK$2.76 million) and RMB2.55 million (equivalent to approximately HK$2.87 million) respectively to the Ziyang Oasis Xinzhong Water for the construction of the relevant facilities in relation to the operation in the Ziyang City Landfill Project. Ziyang Oasis Xinzhong Water is held as to 49% by Shenzhen New China Water and 51% by Chengdu Lvzhou Rong. The total power generation capacity is amounting to 2,000 kilowatt per hour and an estimated on-grid electricity price RMB0.568 per kilowatt hour.

FORMATION OF RENEWABLE ENERGY PROJECTS AFTER THE YEAR UNDER REVIEW

I. Sanya City Project

On 16 January 2019, Sanya City Garden Environmental Protection Administration* (the "**Sanya City Administration**") (三亞市園林環衛管理局) and Shenzhen New China Water entered into the landfill gas harmless collection and combustion power generation utilization agreement for a term of 10 years. Sanya City Administration granted the right to Shenzhen New China Water to neutralize and collect all the landfill gas produced at Sanya landfill site in return of generating profit from the sale of electricity and carbon emission.. Shenzhen New China Water will invest RMB15.00 million (equivalent to approximately HK$17.41 million) to form the project company for the construction of the relevant facilities in relation to the operation in the Sanya City Garbage Disposal Site Project ("**Sanya City Project**"). The project company was formed in December 2017.

II. Lingao County Landfill Project

On 5 March 2019, Lingao County Municipal Garden Administration* ("**Lingao Administration**") (臨高縣市政園林管理局) and Shenzhen New China Water entered into an agreement on the neutralized collection and power generation of land fill gas. The collection period of landfill gas is until the volume of landfill gas generated from Lingao County landfill reduced to the level of which could not be further utilized. Shenzhen New China Water will invest RMB16.00 million (equivalent to approximately HK$18.72 million) to form the project company for the construction of the relevant facilities in relation to the operation in the Lingao County Domestic Waste Landfill Gas Power Generation Project (the "**Lingao County Landfill Project**"). Lingao Administration allowed this project company to neutralize and collect all the landfill gas produced at Lingao County landfill. Project company shall be responsible for the project construction and collection landfill gas in return of profit from the sale of electricity and carbon emission. The total power generation capacity is amounting to 2,000 kilowatt per hour and an estimated on-grid electricity price RMB0.637 per kilowatt hour. The project company has been established in March 2019.

OTHER MATERIAL EVENTS DURING THE YEAR UNDER REVIEW

(i) Honghu Blue Valley Property

On 10 January 2018, Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司) ("**Huizhou Company**") an indirect wholly-owned subsidiary of the Company, entered into the Construction Agreements with the China Minsheng Drawin Construction Co., Ltd* (中民築友建設有限公司) in relation to the construction of the premises in Huizhou, the PRC at a consideration of RMB120 million (or approximately HK$144.6 million). The property namely Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) located at No. 3 Taihao Road, Block 3 Centre, Gaoxin Science and Technology Industrial, Huinan Road East, Honghu Blue Valley Wisdom Square, Huicheng District, Huizhou City, the PRC ("**Honghu Blue Valley Property**") and is expected to be completed in October 2019. Total gross floor area is 35,725 square meters. Honghu Blue Valley Property comprise of (i) 3 research and development centers; (ii) 17 office buildings for sale; (iii) shopping malls; and (iv) associated basements.

(ii) Photovoltaic Power Project

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

(iii) Awarded 5-year Glass Management Contract

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

(iv) Disposal of 30% equity-interest of Super Sino Group

On 8 June 2018, Billion City Investments Limited, a direct wholly-owned subsidiary of the Company (the "**Vendor**"), the Company as Guarantor and Guangdong Water Group (H.K.) Limited, a subsidiary of Guangdong Investment Limited (the "**Purchaser**") entered into the sale and purchase agreement (the "**Agreement**") pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing 30% of the entire issued share capital of the Super Sino Investment Limited (the "**Target Company**"), and the Sale Loan due to the Vendor by the Target Company amounted to RMB27.48 million as at the date of the Agreement, at a consideration of RMB81.00 million (equivalent to approximately HK$95.78 million). As at 31 December 2018, the Vendor received RMB40.50 million as a deposit (equivalent to approximately HK$48.93 million), representing 50% of consideration from the Purchaser. Up to the date of this report, the disposal of Target Company has not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

(v) Termination of Disposal of Certain Renewable Energy Projects

On 9 July 2018, New China Water (Nanjing) (the "**Intended Vendor**"), an indirect wholly-owned subsidiary of the Company, entered into the head of agreement (the "**HOA**") with Kelin Environmental Protection Equipment, Inc.* (科林環保裝備股份有限公司) (the "**Intended Purchaser**"), pursuant to which the Intended Vendor intends to sell the entire equity interests of 14 companies principally engaged in landfill gas comprehensive utilization projects (the "**Target Companies**") to the Intended Purchaser in return for cash consideration, subject to due diligence review having been conducted on the Target Companies by the Intended Purchaser. On 9 January 2019, the Intended Purchaser issued a written notice notifying the Intended Vendor that the Intended Purchaser has decided not to acquire the Target Companies. The HOA was terminated automatically from the date of written notice.

(vi) Acquisition of the entire equity interest of Jiangxi Deyin Industrial Co., Ltd

On 20 July 2018, Yingtan Water Supply Group Co. Ltd ("**Yingtan Water**"), an indirect non-wholly owned subsidiary of the Company entered into the share transfer agreement with Wu Yiqiang* (巫義強) ("**Mr. Wu**") and Fu Li* (付莉) ("**Ms. Fu**") to acquire in aggregate 100% equity interest of Jiangxi Deyin Industrial Co., Ltd.* (the "**Jiangxi Deyin**") (江西德銀實業有限公司) at a consideration of RMB54.10 million (equivalent to approximately HK$62.72 million). The principal activity of Jiangxi Deyin is property development. The acquisition was completed on 31 July 2018.

(vii) Construction of the Premises in Nanjing, the PRC

On 24 October 2018, New China Water (Nanjing) Energy Company Limited* (新中水(南京)能源有限公司) and New China Water (Nanjing) Carbon Company Limited* (新中水(南京)碳能有限公司) (the "**Nanjing Companies**") entered into the Construction Agreements with the Jinling Construction Group of Jiangsu Province Co. Ltd.* (江蘇省金陵建工集團有限公司) (the "**Contractor**") in relation to the construction of the premises (including but not limited to 6 blocks of research and development centers and a underground car parks) with a total gross floor area of 72,825.3 sq.m in Nanjing, the PRC at construction cost of RMB180 million (or approximately HK$203.4 million) pursuant to the Construction Agreements. The construction of premises is planned to be completed in December 2019.

(viii) The disposal of 35% equity interest in Jinan Hongquan Water Production Co., Ltd

On 6 December 2018, the Blue Mountain Hong Kong Group Limited, an indirect wholly-owned subsidiary of the Company (the "**Vendor**") and the Jinan Water Group Co., Ltd* (濟南水務集團有限公司) (the "**Purchaser**") entered into the sale and purchase agreement pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 35% of the equity interest in the Jinan Hongquan at a consideration of RMB70.8 million (equivalent to approximately HK$80.0 million). As at 31 December 2018, the Vendor received RMB35.40 million as a deposit (equivalent to approximately HK$40.29 million), representing 50% of total consideration. The disposal was completed in January 2019.

OTHER MATERIAL EVENTS AFTER THE YEAR UNDER REVIEW

Acquisition of Water Intake Facilities

On 28 February 2019, the Yingtan Municipal Housing and Urban-Rural Development Bureau* (鷹潭市住房和城鄉建設局) (the "**Development Bureau**") and Yingtan Water Supply entered into the agreement in relation to the construction of the water intake Facilities, pursuant to which the Development Bureau will procure the construction of the water intake facilities and Yingtan Water Supply shall acquire from the Development Bureau the water intake facilities by installment payments in cash over eight years' time, commencing from the subsequent month after water connection. The cost of construction shall not exceed RMB420.0 million (equivalent to HK$491.4 million). The water intake facilities comprised of water supply pipelines and its ancillary facilities for i) the section from the Huaqiao Reservoir Luotang River Water Distribution Plant* (花橋水庫羅塘河配水站) to the intake of the Jiangnan Water Plant* (江南水廠), and ii) the intake section of the Xiabu Water Plant* (夏埠水廠) and the renovation of the Guiye Water Intake Pumping Station* (貴冶取水泵房泵站) (the "**Water Intake Facilities**"). The construction of Water Intake Facilities is planned to completed in July 2019.

LITIGATIONS AND ARBITRATION

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. ("Tai Heng") without payment of purchase consideration of RMB1 million. The Liquidator obtained a judgement from the High Court under the action of HCA 2448/2017 on 7 January 2019 against Tai Heng in favour of Top Vision, under which Tai Heng should repay approximately HK$3.90 million being principal and interest, and the Court further awarded judgement interest at a rate of 8% p.a. from 23 October 2017 to 31 December 2018 and 8.08% p.a. from 1 January 2019 to the date of payment (the "Judgement Debts"). The Liquidator proposed a demand letter of the Judgement Debt to Tai Heng on 29 January 2019 but failed to receive any reply from Tai Heng. Therefore, the Liquidators are prepared to issue statutory demand against Tai Heng. If Tai Heng fail to reply, the Liquidators may further pursue winding-up application against Tai Heng. Up to the date of this report, the arbitration proceeding is in the process and no substantial assets have yet been preserved or recovered. As at 31 December 2017 and 31 December 2018, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

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

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

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

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

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

CAPITAL COMMITMENTS

As at 31 December 2018, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment, concession intangible assets and investment in associate of HK$337.93 million (FY2017: HK$155.71 million) and HK$2.22 million (FY2017: Nil), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

During the year, the Company issued guarantees to banks in respect of bank borrowings made by two subsidiaries which will expire on 24 May 2018 and 26 September 2019. As at 31 December 2018, the maximum liability of the Company relating to the aforesaid guarantee issued is the outstanding amount of the bank borrowings of the subsidiaries of HK$Nil million (FY2017: HK$14.41 million).

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$257.12 million in total as at 31 December 2018 (FY2017: HK$114.15 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$263.81 million (FY2017: HK$141.28 million); and

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

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future:

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Foreign exchange rates risk	The Group's assets, borrowings and major transactions are mainly denominated in Renminbi. The Group mainly settles business expenses and receives operating income in mainland China in Renminbi. The Group also remits HK dollars to PRC and converts into Renminbi for acquisition of projects or capital injection to establish investment companies. As the Group's financial statements are presented in HK dollars. Any appreciation or depreciation of HK dollars against Renminbi will affect the Group's financial position. The Management consider the exposure to foreign exchange risk is minimal and will continue to closely monitor the exposure and take any actions when appropriate.	– Management actively monitor the fluctuation in exchange rate and the Group's exposure to foreign exchange rate risk – Perform sensitivity analysis to quantify the foreign exchange rate risk – Management review regularly what necessary action (such as hedging) should be taken	Unchanged

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Equity price risk	The Group is exposed to equity price risk through its investments in listed equity securities and investments in funds. Unfavorable movement in equity price could bring book or actual investment loss to the Group.	– The Board actively review and monitors the investment portfolio and take necessary action to limit the potential loss in an acceptable level – Establish investment policies that clearly set out control limits and approval procedures – Obtain Board approval for investment decisions – Establish investment department to perform study and analysis to the investment and potential investment	Increased
Liquidity risk	Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets.	– Actively monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows	Decreased

MANAGEMENT DISCUSSION AND ANALYSIS

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Operational and pricing risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Also, as the Company has only limited ability to change/re-negotiate wastewater treatment or water supply fees. If relevant local government authority reject the Company's applications to increase the tariffs to compensate the increase in actual costs, the Company might suffer from loss or decrease in profitability.	– Responsibility for managing operational risks basically rests with every function at divisional and departmental levels – Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework – Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken	Unchanged
Investment risk	Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments and thus risk assessment is a core aspect of the investment decision process.	– Site visit and detailed analysis will be performed to ensure invest only to high quality projects – Investment committee has been set up to review and approve investment to projects – Regular updates on the progress of the investments of our Group would be submitted to the Board	Decreased

Risk	Description	Key Risk Mitigations[1]	Changes[2]
Manpower and retention risk	Our Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of our Group.	– Encourage internal promotion to find talents and provide upstream opportunities – Provide attractive remuneration package to suitable candidates and personnel – Create positive and work-life balance working environment to avoid staff dissatisfaction – Regularly review staff benefit package and compare to market – Establish clear career path, Backup staff plan and rotate staff regularly, if possible, to reduce impact from staff departure	Increased

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

EMPLOYEES

As at FY2018, excluding jointly controlled entities and associates, the Group had 1,332 (2017: 1,097) employees, of which 13 (2017: 16) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$202.64 million (2017: HK$162.27 million). The increase was caused by several of our renewable energy projects have commenced their operations in 2018. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials.

NO MATERIAL CHANGE

Save as disclosed in this report, during the FY2018, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the FY2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lin Yue Hui ("Mr. Lin"), aged 47, was appointed as an executive Director of the Company in August 2011. He is also the director of certain subsidiaries of the Group. On 21 April 2017, Mr. Lin was appointed as a CEO and was re-designated from a member to a Chairman of Investment Committee of the Company. Mr.Lin was appointed as the Chairman of the Company and a Chairman of Nomination Committee in September 2018. He previously was a partner of Guanghe Law Firm. Mr. Lin obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies in PRC.

Mr. Liu Feng ("Mr. Liu"), aged 56, was appointed as an executive Director of the Company in August 2011. He is a member of each of the Remuneration Committee and the Investment Committee. He is also the director of various subsidiaries of the Group. Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 48, was appointed as an executive Director and Company Secretary of the Company in October 2006 and November 2006 respectively. Ms. Chu holds a Bachelor's Degree of Accounting and a Master's Degree of Corporate Governance. She is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Ms. Chu is also a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Ms. Chu has over 20 years' extensive experience by working in an international audit firm and other listed companies. On 28 November 2018, Ms. Chu has resigned as an independent non-executive Director (the "**INED**") and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of Bisu Technology Group International Limited (stock code:1372). On 4 April 2019, Ms. Chu has resigned as an INED, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of Sino Golf Holdings Limited (stock code: 361). Both of the aforesaid companies are listed on the Main Board of the Stock Exchange.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 44, was appointed as an executive Director of the Company in July 2012. She is the director of various subsidiaries of the Group. Ms. Deng has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie ("**Mr. Deng**"), a substantial shareholder of the Company.

Mr. Zhong Wei Guang ("Mr. Zhong"), aged 51, was appointed as an executive Director of the Company in September 2018. He is a member of the Investment Committee and a director of Swan (Huizhou) Investment Company Limited, a subsidiary of the Group. Currently, he serves as a general manager and deputy general manager in Huizhou Junfeng Investments Limited* (惠州俊峰投資有限公司) and Huizhou City Huixinfu Investment Co., Limited* (惠州市惠新福投資有限公司) respectively. Mr. Zhong was a committee member of 9th, 10th and 11th session of the Huizhou City Political Consultative Conference. He has over 20 years of experience in corporate management in PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 73, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo is a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Guo has once the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd (深圳市建瓴投資發展有限公司). He has been an independent director of China Jingu International Trust Co., Ltd (中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation (中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 54, was appointed as an INED of the Company in October 2012. Mr. Wong is a Chairman of both of the Audit Committee and Remuneration Committee and a member of the Nomination Committee. Mr. Wong is currently an INED of Interactive Entertainment China Cultural Technology Investments Limited (stock code: 8081) and Worldgate Global Logistics Ltd (stock code: 8292), both companies are listed on the GEM of The Stock Exchange. Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong and a Master's Degree of Corporate Governance from Hong Kong Polytechnic University. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

Ms. Qiu Na ("Ms. Qiu"), aged 40, was appointed as an INED of the Company in September 2016. Ms. Qiu is a member of the Audit Committee. Graduated from the Information Institute of Defense Studies, NDU, PLA* (中國人民解放軍國防信息學院) in 2012, majoring in accountancy. Ms. Qiu is currently a general manager of Huizhou City Huixinfu Property Company Limited. She has extensive experience in human resources management, accounting, corporate administration and property development.

SENIOR MANAGEMENT OF THE GROUP

Mr. Liu Hui Quan ("Mr. Liu"), aged 56, was appointed as a Vice President of the Company in January 2012. Mr. Liu is a vice chairman of FoShan City Gaoming Huaxin Sewage Treatment Company Limited* (佛山市高明區華信污水處理有限公司), a director of Yichun Water Industry Co. Ltd., a director of Jining City Haiyuan Water Treatment Company Limited* (濟寧市海源水務有限公司) and a director of Guangzhou Hyde Environmental Protection Technology Co. Ltd* (廣州市海德環保科技有限公司), all these companies are the subsidiaries of the Group. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Ms. Zhang Chun Li ("Ms. Zhang"), aged 45, was appointed as the financial controller of the Company in January 2014. Ms Zhang graduated from the Institute of Changsha Traffic with the major in accounting. She is an associate member of the Chinese Institute of Certified Public Accountant. Ms. Zhang has over 10 years of extensive experience in the financial accounting field.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Huan Xiong ("Mr. Xu"), aged 57, was appointed as a Vice President of the Company in October 2014. Mr. Xu is a director and general manager of Hainan Danzhou Water Company Limited* (海南儋州自來水有限公司), an associate company of the Group. Mr. Xu is a leading expert in China's water supply industry and has served in the industry for nearly 20 years, with extensive experience in the construction of water pipe networks, regional water supplies, and the design, construction and management of hydropower stations.

Mr. Huang De Ping ("Mr. Huang"), aged 48, was appointed as the Chief Internal Auditor of the Company in July 2015. Mr. Huang is a qualified PRC certified public accountant and has over ten years of working experience in finance and auditing as well as extensive experience in corporate internal audit and internal control management.

Mr. Liu Wei Qing ("Mr. Liu"), aged 56, graduated from Jiangxi University of Science and Technology (formerly known as Jiangxi Institute of Metallurgy) and holds a bachelor's degree in Engineering and a university lecturer certificate. He joined the Company in April 2012 and was appointed as a Vice President of the Company in May 2017. Currently, Mr. Liu is a vice chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水（南京）再生資源投資有限公司), a vice chairman and director of Shenzhen City New China Water Environmental Technology Limited* (深圳市新中水環保科技有限公司) and a director of Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司), all these companies are the subsidiaries of the Group. He has extensive management work experience in information technology and domestic urban water supply industry, daily waste treatment, and the comprehensive utilization of landfill gas of the landfill site.

Ms. Shou Li Rong ("Ms. Shou"), aged 49, was appointed as the vice president of the Company in May 2017. Ms. Shou is a chairman of Yingtan Water Supply Group Co. Ltd, a subsidiary of the Group. Ms. Shou holds a bachelor's degree from Jiangxi Normal University and has certified qualification as a registered supervision engineer and a registered real estate appraiser and professional titles as an accountant and economist. Ms. Shou has worked for the government for nearly twenty years and served as the deputy mayor of the People's Government of Guixi City (貴溪市人民政府) with many years of work experience.

Mr. Tang Po Shing ("Mr. Tang"), aged 26, graduated from School of Economics and Management of Wuhan University in July 2015 with a bachelor's degree in marketing. He obtained a master's degree in entrepreneurship and innovation management from Loughborough University in October 2017. Mr. Tang joined the Group in November 2017. He previously served as an assistant to the general manager of Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司), the deputy general manager of the Investment and Financing Department of the Company, the vice chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水（南京）再生資源投資有限公司). Mr. Tang was appointed as a vice president of Company in January 2019 and currently act as the chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited (新中水（南京）再生資源投資有限公司) and a member of Investment Committee. Mr. Tang is the son of Mr. Deng Jun Jie, a substantial shareholder of the Company and the nephew of Ms. Deng, an executive director of the Company.

CORPORATE GOVERNANCE REPORT

OVERVIEW

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

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

For the year ended 31 December 2018, the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviations of Code A.2.1, A.4.1 and E.1.2.

A. Directors

A.1 The Board

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 59 Board meetings in the year of 2018. Directors have been consulted to advice the agenda of the Board meeting. For the board regular meeting, at least 14 days notice has been given to the Directors.

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

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

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

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

- The Board holds meetings on a regular basis and will meet on other occasions when a board level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and annual general meeting ("**AGM**") during the year ended 31 December 2018 are set out below:

Attendance Records

	Number of meetings attended/held					
Name of Directors	Board	Remuneration Committee	Audit Committee	Nomination Committee	Investment Committee	Annual General Meeting
Executives Directors:						
Mr. Lin Yue Hui *(Chairman and CEO)*	59	N/A	N/A	N/A	7	1
Mr. Liu Feng	58	3	N/A	N/A	7	1
Ms. Deng Xiao Ting	58	N/A	N/A	N/A	N/A	1
Ms. Chu Yin Yin, Georgiana	42	N/A	N/A	N/A	N/A	1
Mr. Zhang Wei Guang#	20	N/A	N/A	N/A	–	N/A
Mr. Deng Jun Jie*	34	N/A	N/A	2	N/A	–
Independent Non-Executive Directors:						
Mr. Guo Chao Tian	55	5	5	2	N/A	1
Mr. Wong Siu Keung, Joe	56	5	5	2	N/A	1
Ms. Qiu Na	59	N/A	5	N/A	N/A	1

N/A: not applicable

* Resigned on 4 September 2018

\# Appointed on 4 September 2018

CORPORATE GOVERNANCE REPORT

A.2. Chairman and Chief Executive Officer

- On 4 September 2018, Mr. Lin Yue Hui ("**Mr. Lin**"), currently is the CEO of the Company, was appointed as a Chairman of the Company. This deviates from the code provision A.2.1, the roles of the Chairman and CEO of the Company should be separate and should not be performed by the same individual. The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Lin, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

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

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

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

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2018 and the Company's business plan to be developed in 2019. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Company's future development.

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

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

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

A.3 Board Composition

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

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

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

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

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

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

- The names of the directors and their respective biographies are set out on pages 41 to 42 of this annual report.

CORPORATE GOVERNANCE REPORT

A.4 Appointment, re-election and removal

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

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

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

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

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

A.5 Nomination Committee

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

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

  (a) to review the policy concerning diversity of Board members (the "Board Diversity Policy") and the structure, size and composition (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and disclose such policy, including any measurable objectives that the Nomination Committee has set for implementing the policy and progress on achieving these objectives, in the Company's corporate governance report;

  (b) to develop and maintain a policy for nomination of Board members (the "Nomination Policy") which includes the nomination procedures and the process and criteria adopted by the Nomination Committee to identify, select and recommend candidates for directorship during the year, and to review periodically and disclose the policy in the Company's corporate governance report;

  (c) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships under the Nomination Policy and Board Diversity Policy;

  (d) to assess the independence of INEDs; and

  (e) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive.

- Nomination Policy

  The Group has a formal, considerate and transparent nomination policy for the appointment of new Director or re-election of Directors to the Board. The Group has adopted a nomination procedure and the Board, based on the criteria established, evaluate and select candidates for the directorships. In assessing, selecting and recommending candidates for directorship to the Board, the Nomination Committee will give due consideration to the factors including but not limited to:

  – Reputation for integrity;

  – Accomplishment and experience in the relevant industries in which the Company's business is involved and other professional qualifications;

CORPORATE GOVERNANCE REPORT

- Relevant skills and experience to contribute to the Board;
- Commitment in respect of available time and relevant interest;
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Contribution that the candidates can potentially bring to the Board;
- Plans in place for the orderly succession of the Board; and
- Independence criteria as required under the Listing Rules for candidates for independent non-executive Directors. All candidates must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

• These above-mentioned factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee considers the personal profile and credentials of the proposed candidates and may request candidates to provide additional information and documents if it considers necessary, and assesses the proposed candidates or incumbent candidates on criteria set out above. The Nomination Committee may also invite nominations of suitable candidates from Board members (if any) for consideration by the Nomination Committee prior to its meeting. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election and re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

• Board Diversity Policy

  - The Company has adopted a board diversity policy (the "Policy") in August 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Policy has been available on the Company's website.
  - The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge and length of service.

– During the year under review, the Nomination Committee held one meeting to review the composition of the Board and its committees as well as the background and experiences of the Board members and evaluate the contributions of the Board members to the Group in 2018. An analysis of the Board's current composition is set out in the following chart:

Name of director	Title	Age	Gender	Professional/ Industry experience	Length of service on Board (since)
Lin Yue Hui	ED and Chairman and CEO	47	Male	PRC law profession and investment	August 2011
Liu Feng	ED	56	Male	Banking, financing and property operation	August 2011
Deng Xiao Ting	ED	44	Female	Accounting and investment	July 2012
Chu Yin Yin, Georgiana	ED and Company Secretary	48	Female	Accounting, auditing and financing	October 2006
Zhong Wei Guang	ED	51	Male	Financial Investment	September 2018
Wong Siu Keung, Joe	INED	54	Male	Accounting, auditing and financing	October 2012
Guo Chao Tian	INED	73	Male	Economic analysis and investment	June 2012
Qiu Na	INED	40	Female	Accountancy	September 2016

ED: executive Director
INED: Independent non-executive Director

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

- During the year, the Nomination Committee held 2 meeting and the attendance of each member is set out in the section headed "The Board" of this report.

A.6 Responsibilities of the Directors

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

- All Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2018, the Company has arranged a training to all Directors which was provided by the accredited service provider.

  During the year ended 31 December 2018, the Directors participated in the following training:

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

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

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

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

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

A.7 Supply of and access to information

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

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

B Remuneration of Directors and Senior Management

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

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

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

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

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

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

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

- The details of the remuneration of the Directors are set out in note 46 of the consolidated financial statements of this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

Emolument band (HK$)	2018 Number of individuals	2017 Number of individuals
Nil to 500,000	2	4
500,001 to 1,000,000	4	1
1,000,001 to 1,500,000	1	0

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

- The Group's share option scheme as described on note 43 of this annual report is adopted as the Group's long-term incentive scheme.

- The Remuneration Committee held 5 meetings during the year to review and approve the remuneration of executive Directors including INEDs and senior management. The attendance record of individual members is set out in the section headed "The Board" of this report.

C Accountability and Audit

C.1 Financial Reporting

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

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

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

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 117 to 122 of this annual report.

- A separate statement in the Annual Report on pages 10 to 40 containing a discussion and analysis of the Group's performance.

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

C.2 Risk Management and Internal Control

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

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

Risk Management Structure

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

Board Oversight

The Board

- Oversees the risk management and internal control systems;
- Determines the Group's business strategies and risk appetite;
- Reviews at least annually the effectiveness of the risk management and internal control systems; and
- Monitors the risk management and internal control systems in an on-going manner.

Audit Committee

- Oversees the evaluation and improvement process of risk management and internal control systems;
- Reviews the Group's risk register; and
- Reviews and approving the internal control review plan and review results.

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Management Risk Management and Leadership

- Identify and Monitor all risks relevant to daily operations of the Group;
- Report to the Board and Audit Committee on the risks identified including strategic, operational, financial, reporting and compliance risks and its changes during the year;
- Implement, execute and on-going monitor risk management and internal control processes; and
- Develop and execute appropriate action plans to mitigate the risk identified and to resolve material internal control defects.

Internal audit function and external auditors

Internal Audit Function

- Review the effectiveness of the Group's risk management and internal control systems;
- The scope of the internal control review is risk-based and is reviewed by the Audit Committee; and
- Communicate the internal control review result directly to the Audit Committee.

External Auditor

- Communicate internal control issues they noticed during their audit to Audit Committee directly.

Risk Management Process

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

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

Main features of our risk management and internal control systems

Maintain an effective internal control system at operational level

- Establish clear internal control policies and procedures, clearly define the responsibilities, authorities and accountabilities of each key positions;

- Establish code of conduct, explain the Group's requirements on integrity and ethical value to all staff;

- Establish whistle blowing mechanism, encourage employees to report incidents of misconduct or fraud;

- Establish appropriate level of information technology access rights, avoid leakage of price sensitive information; and

- Establish insider information disclosure policy, including reporting channels and responsible person of disclosure, unified response to external enquiries and obtain advices from professionals or the Stock Exchange of Hong Kong Limited, if necessary.

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

On-going risk monitoring at risk management level

The Management identifies and mitigates major risks according to the risk management process, the identified risks are summarized in risk register and submitted to the Board and Audit Committee for their review together with a 3-year internal control review plan to enable the Board and Audit Committee effectively monitor major risks of the Group and how the risks are managed. Major risks relevant to the Group are shown on pages 36 to 40 of this Report.

Independent review

The Group has established an independent internal control department to conduct an internal control review on an annual basis, the scope of review has covered the period from 1 January 2018 to 31 December 2018. The results of the internal control review has been submitted to the Audit Committee.

The Management has established remediation and improvement plan for internal control weaknesses identified. Nothing has come to the Audit Committee's or Board's attention to believe that risk management and internal control systems of the Group are inadequate or ineffective.

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C.3 Audit Committee

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

The major duties of the Audit Committee include:

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

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

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

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

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

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

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

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

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

For the year under review, the Audit Committee held 5 meetings included the reviewing of the financial statements, annual report and accounts and interim report. The Group's annual report for the year ended 31 December 2018 and internal audit reports have been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

D. Delegation by the Board

D.1 Management functions

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

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

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

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

  – Setting the objectives and targets of the Company;

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

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

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

  – Regularly evaluating businesses and operation performance;

  – Ensuring effective implementation of the Board's decision;

  – Ensuring adequate fundings; and

  – Monitoring performance of the management of the Group.

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

D.2 Board Committees

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

D.3 Corporate Governance Functions

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

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

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

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

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

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

E Communication with shareholders and investors

E.1 Effective communication

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

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

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

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

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

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

- The updated consolidated version of the Company's Memorandum and A.A is available on the Company's website and on the Stock Exchange's website. During the year ended 31 December 2018, there was no change in the Company's constitutional documents.

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

- Dividend Policy

  The Company has adopted a dividend policy ("**Dividend Policy**") in 3 January 2019. In proposing any dividend payout and/or determining the form, frequency and/or the amount of such dividend payout, the Board shall take into account, inter alia:

  a) the Group's actual and expected financial performance;

  b) retained earnings and distributable reserves of the Group and each of the members of the Group;

  c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

  d) the Group's capacity from current and future operation, future commitments at the time of preparing and making the distribution;

  e) any restrictions on payment of dividends that may be imposed by the Group's lenders;

  f) any restrictions under the laws of Hong Kong and Cayman Islands and the Company's A.A;

  g) the dividends received from the Group's subsidiaries and associates, which in turn will depend on the ability of those subsidiaries and associates to pay a dividend;

  h) the Group's expected working capital requirements;

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i) general economic conditions, business cycle of the Group's core business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

j) any other factors that the Board deem appropriate.

This Dividend Policy and the declaration and/or payment of future dividends under this policy are subject to the Board's continuing determination that this Dividend Policy and the declaration and/or payment of dividends would be in the best interests of the Group and Shareholders, and are in compliance with all applicable laws and regulations. The Board endeavours to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable Dividend Policy.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. This Dividend Policy shall in no way constitute a legally binding commitment by the Group in respect of its future dividend and/or in no way obligate the Group to declare a dividend at any time or from time to time.

E.2 Shareholders' rights

- Procedures for Shareholders to Convene an EGM

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

- Procedures for Proposing a Person for Election as a Director

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

- Procedures for Directing Shareholders' Enquiries to the Board

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

- Procedures for making proposals at Shareholders' Meetings

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

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

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

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

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

E.3 Voting by poll

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

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

F. Company Secretary

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

CORPORATE GOVERNANCE REPORT

INVESTMENT COMMITTEE

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

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

- The major duties of the Investment Committee include:

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

  (b) Review the investment policies and strategy;

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

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

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

- The Investment Committee held 7 meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

AUDITORS' REMUNERATION

For the financial year, the remuneration paid and payable to Crowe (HK) CPA Limited, the auditors of the Company, totalled approximately of HK$3,424,000, of which HK$2,500,000 related to audit services and HK$924,000 to professional services for special engagements, taxation and other non-audit services. The auditors' remuneration has been duly approved by the Audit Committee and there was no disagreement between the Board and the Audit Committee on the selection and appointment of auditor.

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31 December 2018 except for deviations from the code provision A.2.1, A.4.1 and E.1.2 as below:

- Pursuant to the code provision of A.2.1 of the CG code, the roles of Chairman and the CEO of the Company should be separated and should not be performed by the same individual. Mr. Lin currently is a CEO and an executive Director of the Company, was appointed as a Chairman of the Company following Mr. Deng resigned to act as a Chairman and executive Director on 4 September 2018. The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Lin, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

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

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

REPORT OF THE DIRECTORS

The board of Directors of the Company, present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the activities during the year as required by schedule 5 to the Companies Ordinance, including a description of the key risks and uncertainties facing the Group, an indication of likely future development in the Group's business is set out under the sections of Management Discussion and Analysis on pages 10 to 40, Chairman's Statement on pages 5 to 9 of this Annual Report respectively. An analysis of the Group's performance during the year using financial key performance indicators can be found throughout this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to sustainable future development. We assess the materiality of various environmental, social and governance ("**ESG**") issues and take measures to control the environmental and social impacts on operations. All our businesses are required to comply with all applicable ESG laws and regulations strictly. Discussion on the Group's ESG initiatives, performance and applicable ESG laws and regulations can be found in the section headed "Environmental, Social and Governance Report" on pages 77 to 116 of this annual report.

SEGMENT INFORMATION

Analyses of the Group's segmental information by businesses for the year ended 31 December 2018 are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group and the Company are set out in the financial statements on pages 123 to 280.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018. (FY2017: nil)

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of revenue attribute to the Group's five largest customers was less than 30% of the total value of the Group's revenue. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in note 37 and note 43 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 37 to the consolidated financial statements, respectively.

The Company's reserves available for distribution comprise the share premium account, less accumulated losses. As at 31 December 2018, the reserves of the Company available for distribution to shareholders amounted to HK$155,292,000 (2017: HK$257,850,000).

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2018 are set out in note 32 to the consolidated financial statements.

REPORT OF THE DIRECTORS

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

DIRECTORS

The Directors of the Company were:

Executive Directors:

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

Independent non-executive Directors:

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

In accordance with article 108(A) of the Company's Articles of Association ("**A.A.**"), one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, Ms. Deng Xiao Ting ("**Ms. Deng**"), Ms. Qiu Na and Ms. Chu Yin Yin Georgiana ("**Ms. Chu**") will retire from office by rotation and will offer themselves for re-election at the AGM.

According to Article 112 of the A.A., Mr. Zhong Wei Guang ("**Mr. Zhong**"), who was appointed by the Board, shall hold office only until the AGM and shall be eligible for re-election. Mr. Zhong being eligible, will offer himself for re-election at the AGM.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the Directors and senior management of the Company are set out on pages 41 to 43 of the Annual Report.

EMOLUMENT POLICY

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

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2018, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the A.A. of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2018, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the securities and futures ordinance ("**SFO**") which (a) had been notified of the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions in which directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for securities transactions by Directors of listed companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lin Yue Hui	Beneficial owner	5,000,000 (L)	0.31%
Mr. Liu Feng	Beneficial owner	5,000,000 (L)	0.31%
Ms. Deng	Beneficial owner	3,000,000 (L)	0.19%
Ms. Chu	Beneficial owner	743,200 (L)	0.05%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2018.

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

Save as disclosed above, as at 31 December 2018, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions which directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section "Directors' and Chief Executive's interests in securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

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

Note 1: These shares are held by Honghu Capital Co. Ltd. ("**Honghu Capital**") which Mr. Deng Jue Jie ("**Mr. Deng**") is the beneficial owner. Mr. Deng is deemed to be interested in shares held by Honghu Capital by virtues of the SFO.

Note 2: The shareholding percentage in the company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2018.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

PERMITTED INDEMNITY PROVISION

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

EQUITY-LINKED AGREEMENTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section "Connected Transactions" below, no Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year.

CONNECTED TRANSACTIONS

On 8 August 2018, each of executive Director including Mr. Liu, Ms. Deng and Ms. Chu entered into a formal investment agreement (the "**Agreement**") to purchase an office building (the "**Unit**") of Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) located at No.3 Taihao Road, Block 3 Centre, Gaoxin Science and Technology Industrial,Huinan Road East, Honghu Blue Valley Wisdom Square, Huicheng District, Huizhou City, the PRC (the "**Development Project**") at a consideration of RMB2.34 million per Unit (equivalent to approximately HK$2.69 million) (the "**Consideration**") during the internal sale launch of the Development Project. The Consideration for the Unit was based on the price list for internal sale launch of Development Project with reference to the valuation of the Unit performed by an independent valuer in PRC. The Consideration shall be settled in the following manners:

- a sum of RMB1 million (equivalent to approximately HK$1.15 million) shall be paid within 1 business day upon the execution of the Agreement;
- a sum of RMB1 million (equivalent to approximately HK$1.15 million) shall be paid once the condition of housing is acceptable and satisfactory; and
- a sum of RMB0.34 million (equivalent to approximately HK$0.39 million) shall be paid within 5 business days after the submission of application to the relevant governmental authorities for the real estate license.

REPORT OF THE DIRECTORS

The Development Project is developed by Huizhou Swan Heng Chang Property Development Company Limited* (惠州鴻鵠恒昌置業有限公司), an indirect wholly-owned subsidiary of the Company,

As Mr. Liu, Ms. Deng and Ms. Chu are executive Directors of the Company, the purchase of the Unit by each of the aforesaid executive Director constitutes connection transaction of Company under Chapter 14A of the Listing Rules. As one of the relevant percentage ratios determined by reference to the Consideration for the Unit exceeds 0.1% but is less than 5% and HK$3 million, the connected transaction for each of the aforesaid executive Director with respect to the Company is fully exempted under S14A.76 (c) of the Listing Rules.

The Directors (including the independent non-executive directors) of Company consider the connected transactions constituted by the purchase of the Units were entered into (i) on normal commercial terms; and (ii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. Mr. Liu, Ms. Deng and Ms. Chu have abstained from voting on the relevant board resolution of the Company approving the connected transactions pursuant to the Articles of Association of the Company.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year under review.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 48 to the financial statements. During the year, the related party transaction in note 48(a) constituted connected transaction of the Company which should be disclosed pursuant to the Listing Rules. The related party transactions mentioned in notes 48(b) was not connected transaction as defined in the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTION SCHEME

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

(i) Purpose

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

(ii) Qualifying participants

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

(iii) Maximum number of shares

The scheme mandate limit for the Scheme allows the Company to issue a maximum of 159,653,976 share options under the Scheme, representing 10.00% of the issued share capital of 1,596,539,766 shares of the Company as at 31 December 2018.

(iv) Maximum entitlement of each eligible participant

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

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

(v) Option period

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

(vi) Acceptance of offer

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

REPORT OF THE DIRECTORS

(vii) Subscription price

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

(viii) The remaining life of the Scheme

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

Save for the Scheme, the Company did not have any other share option scheme as at 31 December 2018. From the date of the Scheme being adopted up to 31 December 2018, no options had been granted and remained outstanding under the Scheme of the Company.

PRE-EMPTIVE RIGHTS

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

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor its subsidiaries purchased, redeemed or sold of the Company's listed securities.

RETIREMENT SCHEMES

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

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 49 to the consolidated financial statements.

SUFFICIENT OF PUBLIC FLOAT

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

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an Audit Committee comprising three INEDs of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2018. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 58 of this Annual Report.

CHANGE IN INFORMATION OF DIRECTORS

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

(i) the updated biographic details of the Directors are set out on pages 41 to 42 of the Annual Report;

(ii) On 4 September 2018, Mr. Deng has resigned to act as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company. At the same date, Mr. Lin Yue Hui ("Mr. Lin"), currently an executive Director, Chief Executive Officer and a Chairman of Investment Committee of the Company, has been appointed as a Chairman and a Chairman of the Nomination Committee of the Company and Mr. Zhong has been appointed as an executive Director of the Company;

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

(iv) On 28 November 2018, Ms. Chu has resigned as an independent non-executive Director (the "**INED**") and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of Bisu Technology Group International Limited (stock code:1372) which is listed on the Main Board of the Stock Exchange.

(v) On 4 April 2019, Ms. Chu has resigned as an INED, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of Sino Golf Holdings Limited (stock code: 361) which is listed on the Main Board of the Stock Exchange.

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

CORPORATE GOVERNANCE

The Company's Corporate Governance principles and practices are set out in the Corporate Governance Report on page 44 to 65 of this Annual Report.

CONFIRMATION OF INDEPENDENCE

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

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Tuesday, 18 June 2019. Notice of AGM will be published on the websites of the Company (www.chinawaterind.com) and the Stock Exchange (www.hkexnews.hk), and will be despatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

In order to determine shareholders' eligibility to attend and vote at the forthcoming AGM of the Company to be held on Tuesday, 18 June 2019, the register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for entitlement to attend the AGM, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration, not later than 4:00 p.m. on Wednesday, 12 June 2019.

AUDITORS

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

By order of the board
Mr. Lin Yue Hui
Chairman, executive Director and CEO

Hong Kong, 28 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Purpose of the Report

This is the fifth Environmental, Social and Governance ("ESG") Report (The "Report") of China Water Industry Group Limited ("China Water"), "the Company") and together with its subsidiaries, collectively knowns as "the Group", "We"). This report summarizes our work on sustainable development in 2018. We hope that this report will serve as a bridge between us and our stakeholders and continue to optimize our sustainability management system and work through the input of stakeholders.

Reporting Year and Scope

This report covers the reporting period form 1 January 2018 to 31 December 2018 (the "Reporting Period"). Unless otherwise stated, the scope of this report covers the Group's core business segments including (i) provision of water supply, sewage treatment and construction services; and (ii) exploitation and sale of renewable energy in the People's Republic of China.

Reporting Standard

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

Access to The Report

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

Contact Information

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

HIGHLIGHTS OF THE YEAR 2018

Water supply business

352,175,751 tonnes of clean water
Supplying clean water to **5** cities

Sewage treatment business

55,305,731 tonnes of sewage treated **3** sewage treatment projects have been in operation
8,368 tonnes of Chemical Oxygen Demand ("COD") reduced. Water hypoxia that hinders water eco-system was prevented by alleviating the amount of organic waste in water

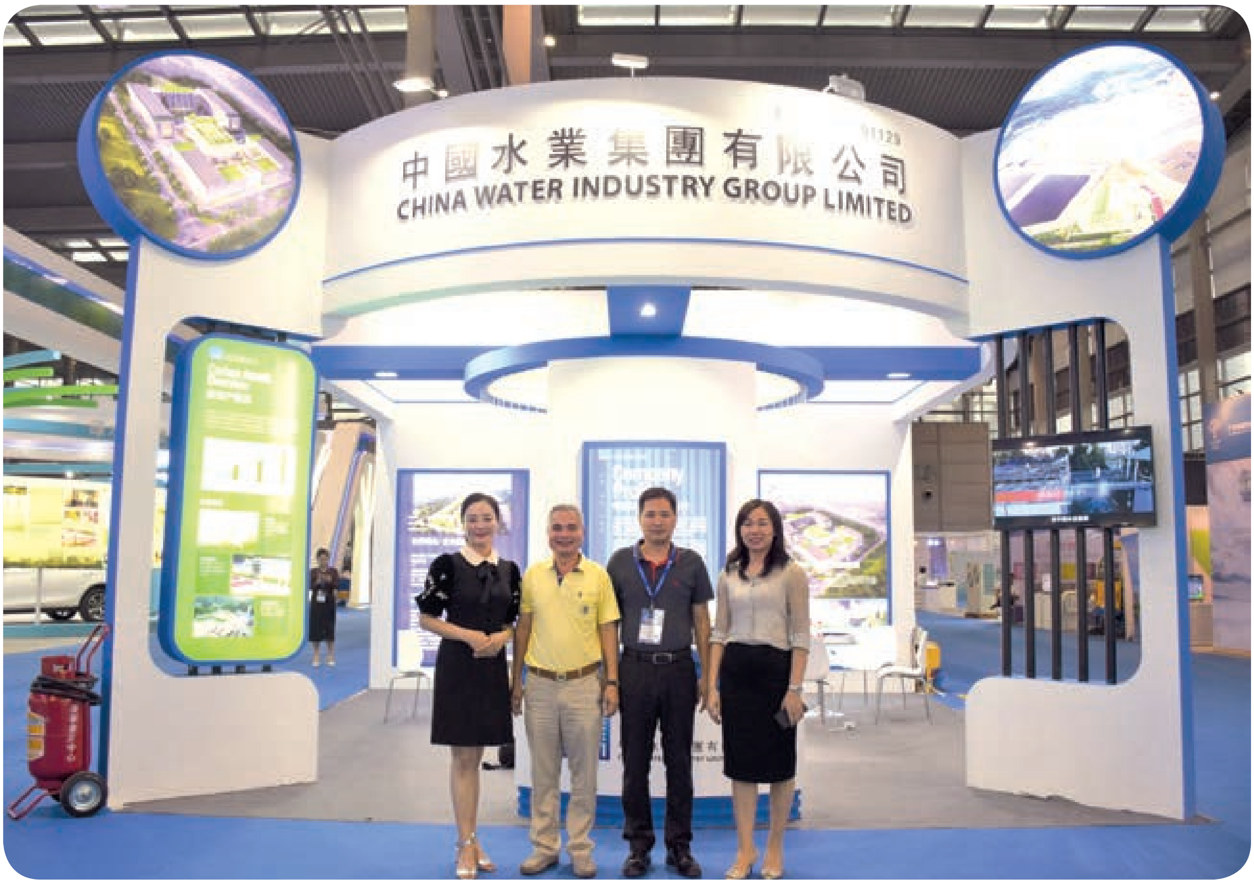
Exploitation and sale of renewable energy business

581,189,536 kWh of green electricity generated
As at 31 December 2018, **25**landfill-gas-to-power projects have been in operation
Equivalent to **3,565,700** tonnes of carbon dioxide emissions avoided

* The amount of carbon dioxide emitted by the same coal power generation

AWARDS AND RECOGNITIONS

Received by	Award	Organizer
China Water Industry Group Limited	Solid Waste Segmentation Leader and Single Ability Leading Enterprise (固廢細分領域領跑及單項能力領跑企業)	E20 Environment Platform (E20環境平台), China Construction Technology Consulting Co., Ltd.* (中國建設科技集團股份有限公司) and China Urban Construction Design & Research Institute Co. Ltd.* (中國城市建設研究院有限公司)
China Water Industry Group Limited	The Most Valuable Investment Listed Company (最具投資價值上市公司)	The 16th Water Sector Strategic Forum 2018 2018 (第十六屆)水業戰略論壇(E20 Environment Platform (E20環境平台))



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INDUSTRY PARTICIPATION

Endowing with the glamorous dream of "clear water, blue sky, and vivid green land", we actively participate in different industry activities and strive to promote the development of the environmental protection industry and contribute to the society.

Participating Company	Event	Organizer
China Water Industry Group Limited	Shenzhen International Low Carbon City Forum and International Green Economy and Low Carbon Industry Expo 2018 (深圳國際低碳城論壇暨2018國際綠色低碳產業博覽會)	Shenzhen International Low Carbon City Forum (深圳國際低碳城論壇)
China Water Industry Group Limited	2018 (12th) Solid Waste Strategy Forum (2018(第十二屆)固廢戰略論壇)	E20 Environment Platform (E20環境平台), China Construction Technology Consulting Co., Ltd.* (中國建設科技集團股份有限公司) and China Urban Construction Design & Research Institute Co. Ltd* (中國城市建設研究院有限公司)
China Water Industry Group Limited	2018 (4th) Ecological Environment Summit Forum (2018 (第四屆) 生態環境高峰論壇)	Environmental Protection Alliance in China Strategic Emerging Industry* (中國戰略性新興產業環境保護聯盟)
China Water Industry Group Limited	The 7th Shenzhen Dapeng Windsurfing Cup (第七屆深圳大鵬杯帆船賽)	Shenzhen Yachting and Windsurfing Association (深圳市帆船帆板運動協會)
China Water Industry Group Limited	Huizhou Qingqilian First General Meeting (惠州市青企聯第一屆第一次會員大會)	Huizhou Youth Entrepreneurs Association of Guangdong Province (廣東省惠州市青年企業家聯合會)

* *For identification only.*

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is an integral part of our sustainability strategy, helping us address existing and potential risks and opportunities in the market, and is the basis for strategy development and decision making. Our main stakeholders include employees, governments, shareholders, business partners, non-governmental organizations and communities. We maintain close contact with our stakeholders through various communication channels to gain insight into their views and expectations on the sustainability of the Group.

Materiality Assessment

In order to identify and prioritize issues that are most important to the development of the Group as well as the stakeholders, we have conducted an assessment to integrate the opinion of both internal and external stakeholders. We have invited a third-party consultant to conduct an online survey and invite stakeholders from different sectors to comment on our sustainability performance. We believe this will help us to develop strategies to meet the needs of our stakeholders in a timely manner and to prevent problems before they happen.

The assessment let the stakeholders to prioritize the issues that are selected according to HKEx's ESG Reporting Guide, industry trend and stakeholder engagement process and are applicable to the Group. Based on the assessment result of both the Group's internal and external stakeholders, the materiality matrix is prepared to determine the economic, environmental and social issues that are most concerned by the Group and the stakeholders. This thereby assist us in adjusting resources allocation and help making the content of this report more targeted. This year, a total of 23 issues are determined to be material by the us and our stakeholders, which also forms the report framework.

Materiality Matrix

Issues Considered

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

OUR APPROACH TO SUSTAINABILITY

In the business decision-making process, we understand the importance of considering long-term development needs. Therefore, we have set the national "clean and low carbon" policy as the foundation of our long-term business strategy and implemented our sustainable development goals through green business, corporate management, caring for employees and community contributions. We want to have a positive impact on the environment and society. To this end, we earnestly implement environmental protection work, care for and protect employees, and contribute to society in different ways, so as to give back to the society in the hope the more people can benefit from our contribution.

Our Key Areas

The Group is committed to the implementation of comprehensive sustainability in the following four areas:

Corporate Management

- Implement risk management for sustainable development as well as management systems to ensure our businesses are in compliance with applicable legal requirements.
- Continuously optimize supplier management and encourage suppliers to fulfill corporate responsibilities.

Green Business

- Continue to develop green business, provide water supply, sewage treatment and construction services, and develop and sell renewable energy business.
- Reduce the impact of people's activities on the environment and create benefits for investors.

Community Contribution

- We make good use of business resources and strive to give back to the community.
- Improve the environmental awareness of employees, business partners and the general public.
- We actively communicate with stakeholders.

Caring for Employees

- We select talents on the basis of both their moral integrity and their professional competence with priority given to the former and to allow them to unlock their potentials.
- We encourage teamwork and strive to build a harmonious working environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK MANAGEMENT

The Board oversees ESG risk as a strategic issue and has adopted a series of risk management procedures to ensure the key concerns of stakeholders and the long-term value of the Group are consistent. The Board determines and defines what is important and the long-term value to the Group. The management assesses and determines the risks and opportunities associated with ESG matters and considers their implications. Various departments of the Group continuously and comprehensively collect internal and external data and opinions of stakeholders through different channels, historical data, future forecast and cases as well as information about other relevant domestic and overseas companies. The Group formulates ESG-related controls to address significant ESG risks, and those controls are operated effectively at appropriate business levels. The Board oversees the ESG matters and ensures that long-term values could be delivered to our stakeholders. The Board of Directors has approved the Group's environmental, social and governance risk policies in March 2019 to further manage environmental, social and governance risks.

Aspect	Content
Objective Setting	Define what are key ESG issues importance to the Group.
ESG Risk Assessment	Identify ESG risks and assess their significance and frequency to the Group.
Integration of this ESG policy and Measures into Business	Establish strategically policies and measures, and integrate them into the business processes to achieve different objectives.
Stakeholder Communications	Communicate and involve stakeholders in the ESG reporting process, collect their opinion to enhance the Group's ESG strategy and long-term value creation.
Board Oversight	the board (or a committee delegated) should include competent personnel, be assigned sufficient power and responsibility and establish proper procedures to oversee long-term ESG strategy and its execution.

Business Integrity

We require every employee to adhere to the professionalism of integrity and trustworthiness to implement the integrity, loyalty and fairness of the Group.

Based on the Criminal Law of the People's Republic of China, Company Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China and other relevant laws and regulations, we have established a series of internal procedures and guidelines which apply to daily business operations, employee policies, supply chain policies, environmental practices and our commitment to social responsibility and the wider community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are determined to maintain zero tolerance for acts such as fraud, extortion, fraud and money laundering. We have prepared a code of conduct and set out our expectations of employee ethics and professional conduct in the Code, indicating that violations of the conduct are subject to relevant disciplinary action. In order to let employees help us to pay attention to the emergence of non-compliance or unethical behavior, we provide training for employees and encourage them to make complaints through the whistleblowing procedure. We will keep confidential the privacy of the reporter and the information received to ensure that the informant will not be threatened or excluded. Some project companies have formulated the "Procurement and Reimbursement Management Measures", "Financial Management System" and internal audit system, and conducted comprehensive audits on management, finance, and operations to effectively prevent bribery, extortion, fraud, and money laundering. During the reporting period, we have not received case reports on fraud, extortion, fraud and money laundering.

Since our water supply project company collects user information, we also actively educate employees about the importance of confidentiality for their customers and require them to carefully handle confidential documents containing customer information. The office storing sensitive information is under surveillance where its access keys are kept by designated staff to safeguard users' data. During the Reporting Period, there is no reported case of privacy infringement.

The advertisements and trademarks placed by the Group comply with relevant laws and regulations including the Advertising Law of the People's Republic of China and the Trademark Law of the People's Republic of China, ensuring that the content of the advertisements is true and legal, and expressing the advertisements in a healthy expression. During the year, the trademark of Yichun Water Industry Co., Ltd. passed the accreditation of the Trademark Office of the State Administration for Industry and Commerce. The successful registration marks the exclusive right to obtain the trademark which is protected by law. It is reported that the local water company has a relatively small number of national registered trademarks in the country. This is an important milestone in the branding construction of Yichun Water Industry Co., Ltd. and an effective way to enhance the core competitiveness of enterprises. Trademarks are important parts of intellectual property rights. It is the intangible assets of the enterprise, which embodies the wisdom and labor of the producers and operators, and illustrate the business achievement of the company.

Supplier Management

We hope that suppliers can reach long-term cooperation with us. Therefore, when we select suppliers, we will attach great importance to whether the two sides have common sustainable development approach.

We require the quality, delivery and price of our suppliers' products and services to be stable, and ensure that our suppliers are doing the same with us on environmental protection, health and safety improvement, human rights protection as well as integrity upholding, to jointly stable supply chain and fulfill corporate social responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

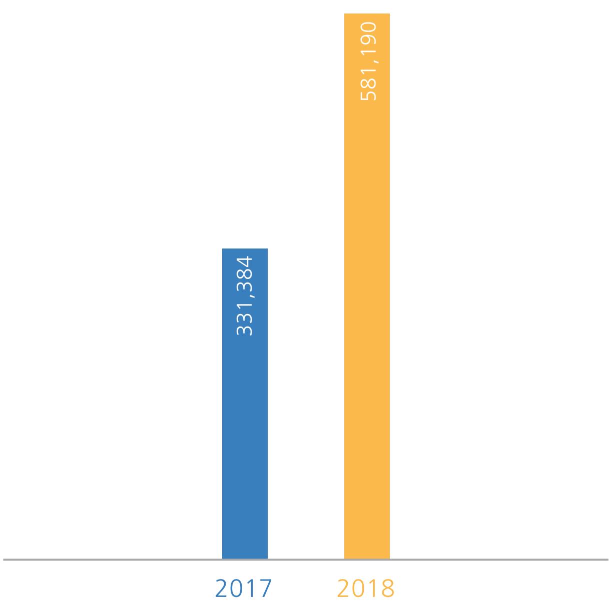
We have established a supplier review system to document the performance of our suppliers and to incorporate relevant information into our considerations for the selection of suppliers in the future. The Group also adheres to zero tolerance for child labor and forced labor, and resolutely upholds human rights and labor rights. We avoid the use child labor and forced labor, and expects our suppliers to adhere to the same principles. We establish supplier management standards to evaluate and inspect suppliers in terms of supply capacity, price, cooperation reputation, and sustainable development performance. We also make regular site visit to assess and monitor suppliers' compliance with regulations. At such, we identify quality suppliers, set up List of Approved Suppliers to eliminate unqualified suppliers and continually optimize our supplier management systems.

OUR BUSINESS

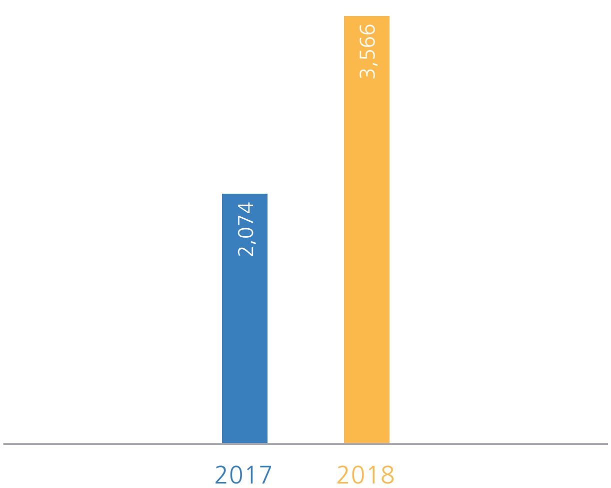
The Group has been actively implementing the country's major initiatives for the construction of ecological civilization, and continues to work hard to develop new journeys and create more value in the environmental protection industry. From water related services, new energy to the integration of industry and city, we provide a full range of high-quality environmental support services for domestic and foreign cities. At the same time, we will actively seek business cooperation with China's cooperative countries in an effort to build a beautiful China with blue sky, vivid green land and clear water.

Exploitation and sale of renewable energy

Green Electricity Generation ('000 kWh)

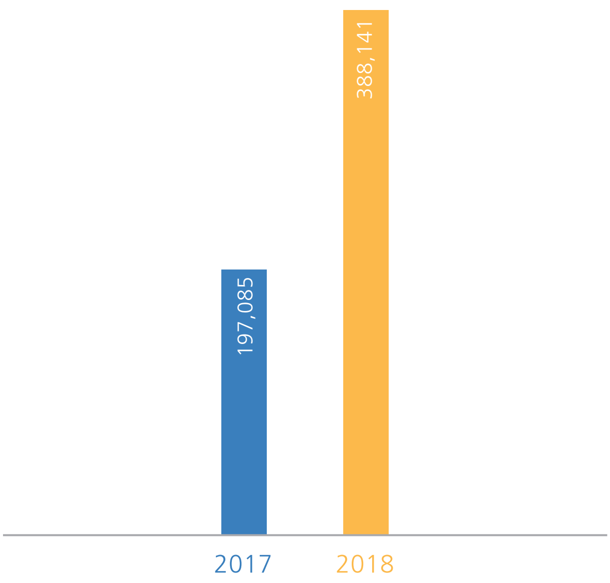


Carbon Dioxide Emission Avoided ('000 tonnes)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Landfill Gas Collected ('000 m³)



After anaerobic fermentation, the anaerobic fermentation of domestic waste will produce a large amount of biogas containing methane. The collection and comprehensive utilization of biogas not only can effectively prevent odor pollution, but also bring economic benefits. At present, the Group's 36 landfill gas power generation projects can achieve greenhouse gas emission reductions of nearly 5 million tons per year by collecting greenhouse gas methane and replacing coal-fired power generation, fully responding to the state's control of greenhouse gas emissions and climate change and the call to help the country's economy transform into a green and low-carbon direction. The Group relies on the relevant policies of the national carbon market, and can apply for the GHG emission reduction application to be the national voluntary Certified Emission Reductions (CERs), and trade as a carbon asset in the Chinese carbon market, which can be applied to Beijing, Shanghai, Guangdong and other provinces. Controlled companies offset carbon emissions (carbon quotas) and will be applicable to regulated companies in the national carbon market in the future.

At the same time, the national voluntary CERs can also be used as carbon financial tools, such as issuing carbon funds, carbon bonds, and realizing credits with national voluntary emission reductions as collateral. The Group has established a carbon asset management system to operate its carbon assets. While striving to implement corporate social responsibility, it will improve its technical capabilities, assist the development of the industry, and strive to maximize the interests of the Group. It is expected to go hand in hand with like-minded partners to achieve win-win.

As at 31 December 2018, the Group has been operating 25 power generation projects in Jiangsu, Hunan, Shandong, Hainan, Chongqing and Guangdong, delivering green power to the power grid, generating a total of 581,189,536kwh of green electricity. At the same time, we have been operating a compressed natural gas projects in Guangdong, generating 10,085,926m^3 of compressed natural gas. These waste utilization projects have not only generated renewable electricity but also substantially alleviated the emission of greenhouse gases from landfills. In 2018, a total of 388,140,650m^3 of landfill gas was collected and equivalent to 3,565,700 tonnes of carbon dioxide emission was avoided because of our projects.

In order to realize landfill gas power generation and grid connection, we will first cover the landfill for deodorization, and then collect and purify it in the landfill to effectively improve the environmental sanitation of the entire landfill and reduce the landfill safety hazards, and solve the problem of landfill odor pollution, poor rain and sewage diversion problem.

We also comply with the Electricity Regulatory Regulations and the Regulations on the Administration of Power Business Licenses, installing voltage stabilizers in the generator sets, and promptly contact the responsible power grid dispatchers to ensure timely and safe grid connection operation.

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

Generated
1,239,186,558
kWh of green electricity

Generated
59,672,593
m^3 of compressed natural gas

Equivalent to
10,660,882
tonnes of carbon dioxide emission avoided

Collected
1,005,282,233
m^3 of landfill gas

Our project company has formulated a comprehensive environmental management system in accordance with the Environmental Protection Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste to continuously monitor the environmental impact of landfills. We also adopt strict emission standards according to relevant laws and regulations. We have taken measures to prevent leakage and contaminate soil and groundwater. While anti-seepage clay layer is used to reinforce the base and surrounding areas of the landfill, anti-seepage film is also adopted. We completely cover the landfill unit after it has been filled, and plant trees on the soil to beautify the environment.

Sewage Treatment

Currently, the Group has 3 sewage treatment projects, located in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan, The following is our sewage treatment business in 2018:

Sewage treatment daily capacity is **170,000** tonnes
55,305,731 tonnes of sewage treated
8,368 tonnes of COD reduced

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

424,009,107 tonnes of sewage treated
70,864 tonnes of COD reduced

We use Biolak technology or Cyclic Activated Sludge System (CASS) technology to treat wastewater to ensure that all treated wastewater does not adversely affect ecological balance and human health. Our project company will only discharge at designated locations in the agreement with the government, and all our projects have been qualified for operation under the Pollutant Discharge Permit. Before the construction of the sewage treatment plant, we have obtained the approval of the Environmental Assessment of Construction Projects (《建設項目環境評價》) and the Environmental Protection Acceptance of Construction Projects (《建設項目環境保護驗收》). The wastewater treatment plant meets the national environmental protection standards during the construction phase. After we have treated the sewage, we will reach the national first-class A standard of the Emission Standards for Pollutants in Urban Sewage Treatment Plants (《城鎮污水處理廠污染物排放標準》). In 2018, all treated effluent is discharged either to the ocean or river, amounting to 55,305,731 in total.

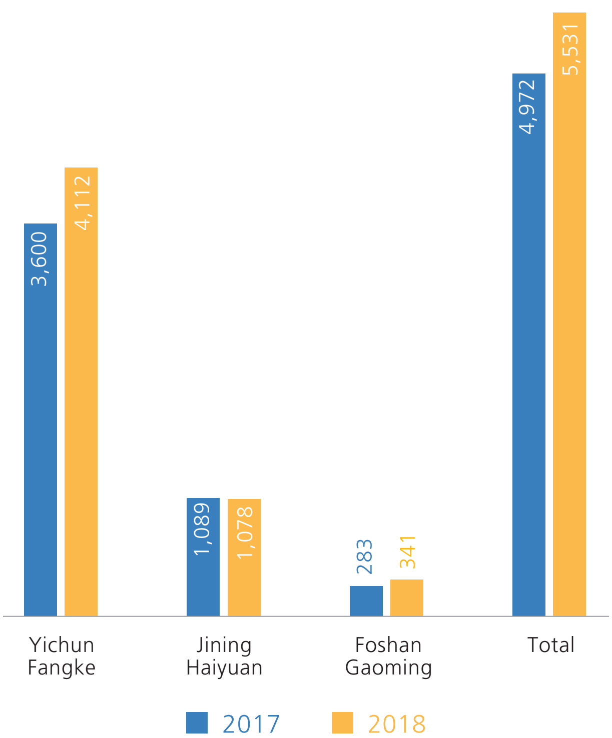
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition to waste-to-energy, we also actively explore the possibility of sludge reuse. Yichun Fangke Sewage Treatment Company Limited make use of the solar biological drying technology to process sludge. The sludge is subjected to closed-type high-temperature drying and dosing sterilization during the whole process. At the same time, the harmful gas generated is removed by plasma exchange deodorization technology. Water content of the sludge will be reduced from around 80% to around 40%. Some of the processed sludge will be used for soil improvement and brick-making, while the sludge will be incinerated.

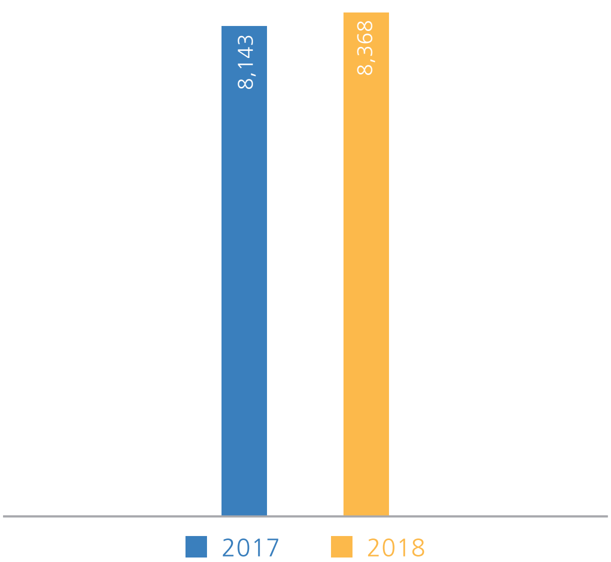
Total volume (tonnes) of treated sludge discharged by disposal method as at 31 December 2018

Incineration	Bricking-making	Fertilization	**Total**
406	6,247	18,479	**25,132**

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



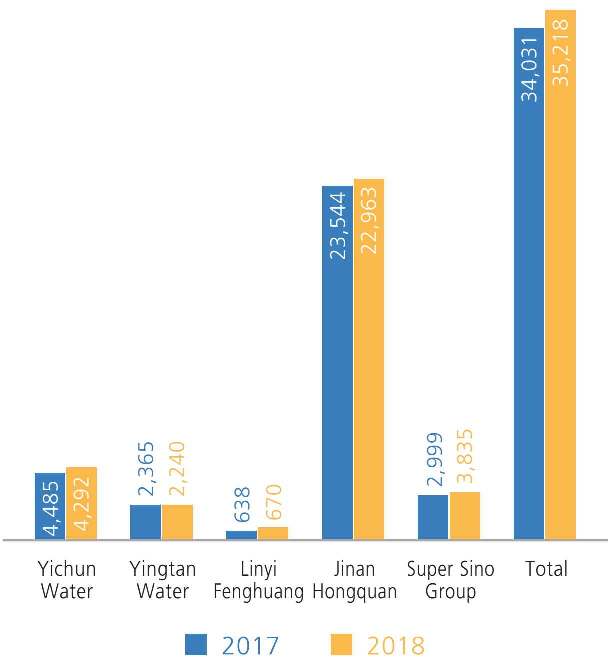
Reduction in COD (Tonnes)



Water Supply

The Group has been focusing on urban water supply for many years. We are committed to providing customers with a stable quality of water supply, ensuring the safety of urban water supply and providing better services to urban residents. In 2018, we have 5 water supply projects, situated in Jiangxi's Yichun, Jiangxi Yingtan, Shandong's Linyi, Jinan's Hongquan and Hainan's Danzhou, supplied a total of 352,175,751 tonnes of water during the year.

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



Water Safety

As a water supplier, we deeply understand the importance of water quality monitoring. We have established a water quality monitoring system in accordance with the Urban Water Supply Regulations (《城市供水條例》)to ensure that the water quality meets the drinking water hygiene standards set by the authority. We have set up our own testing center for some water supply projects, and we regularly commission third-party testing companies to conduct water quality inspections. The test items include more than 30 different detection items such as color, coliform, odor, gas consumption, free residual chlorine, lead, etc. To ensure the representativeness, sampling take places at the water intake point, water outlet point, frequent water taking points of the residents, as well as the ending point of the pipe network. We regularly train our employees to improve their health and safety awareness, alertness and operational skills. To ensure that all operators are in good health conditions, they are required to conduct health check every year while new operators are required to obtain health certificates before they can start working. We set up the pressure measurement point of the pipe network to ensure that the pressure of the water supply pipe network complies with national standards. The company has established a timely temporary water termination notification system and water meter installation system in the city, which greatly improved our service quality.

The company regularly inspects and repairs reservoirs, water diversion channels, water intakes, pumping stations, well groups, water distribution networks, household water meters, water purification plants, public water stations, etc. Security guards are also arranged to monitor important areas of the water plant around the clock to ensure safety in the plant area.

During the construction, trial production and production stages of the water plant, we strictly abide by the national laws and regulations including the Law of the People's Republic of China on the Prevention and Control of Water Pollution to strictly control the emission standards of pollutants. All environmental testing indicators have reached the standard and we have obtained the discharge permits issued by environmental protection department.

Water Supply Related Construction

We have formulated the Project Management System and Engineering Quality Management System according to the National Pipeline Construction and Installation Specifications (《國家管道施工安裝規範》) to ensure sound management of the construction projects including seamless cooperation between departments, work efficiency improvement, and quality assurance.

In addition, in order to ensure that the purchased materials meet the national standards such as GB/T13663-2000 Polyethylene (PE) for Water Supply and 304 non-embroidered steel pipes, we will only use water pipes, pipes and fittings that are certified to protect the health of users. Some project companies only use stainless steel pipes, other types of pipes and fittings only from suppliers that have passed ISO9001:2015 quality management system certification.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We also comply with the requirements of the local authority for the management of water supply and water to ensure that the water pressure is up to standard. Once receiving any leakage report, our maintenance department, who standby around the clock, will immediately rush to the site to conduct maintenance. When conducting maintenance work, all on-site staff are required to wear helmets and protection vest to ensure safety and avoid accidents.

On-site service

With the service tenet of "no matter what the user is, no end to service", Yichun Water Industry Co., Ltd. was aware of the problem of low water pressure and serious leakage for the villagers of the Huxingzu, Guantangba and Wujiazu. As such, relevant department were gathered to go to the site and discuss with the residents about the best pipe network design. After receiving consensus of the villager group, renovation projects for the meters was applied to every household. In addition, the company took the initiative to arrange design and billing staff to explain to the residents the design proposal in detail and conduct unified charge. This proactive and convenient on-site service effectively solved the problem of water use for the residents of the villages, answered the questions and received compliment from the residents.

Yingtan Xinjiang Water Treatment Engineering Limited Launches New Type of "Sealing Ring" Detachment Test

Yingtan Xinjiang Water Treatment Engineering Limited was led by the general manager of the company in April to gather relevant staff of the installation company and engineering management department to carry out the anti-off test of the "slip-resistant rubber seal ring" at Jiangnan water plant. Installation team leader conducted on-site pressure test for DN100 ductile iron pipe. After 20 minutes of testing, the slip resistance of this material was effectively tested, providing a better choice for installation. This non-slip rubber seal is a new product to prevent the ductile iron pipe from slipping off. The structure is simple, economical and easy to install. It is especially suitable for pipeline connection under conditions such as narrow installation space, maintenance work, pipe jacking work. If this type of sealing ring is used, it can effectively improve the safety and reliability of the water supply pipeline, reduce the engineering construction procedures, shorten the water delivery time, save construction costs, and improve work efficiency.

Customer Service Optimization

The Group has established a Customer Service Code to achieve the highest level of service quality. In addition, in light of emergency including water contamination, water plant power outage, burst of main pipe, flood season, natural disasters and coagulation of rain and snow in winter and etc., we have relevant emergency handling plans to provide detailed handling guidelines for our staff, to ensure that we can quickly and effectively maintain stable water supply in the city under various emergencies, and control the development of the situation. In addition, customers can pay water bills, make an inquiry and check corporate information such as temporary water supply suspension notice, water fees schedule and water quality testing report and etc., fully shows our corporate transparency.

Work Together to Protect Our Construction Site

On a day in July 2018, Yingtan Water Supply Group Co., Ltd. conducted renovation work for the water supply network at Nanzhan Road. As construction work with the pipeline crossing the Nanzhan Road had to be conducted under normal traffic on the road, the team not only to complete the tasks according to the time without compromising the quality, but also to ensure that the entire construction would not cause inconvenience to the road traffic and cause traffic congestion. Experiencing strong exposure under the sun, coupled with a sudden heavy rain in the afternoon, the difficulty of the construction work was greatly increased. Every department supervisor was engaged to his work, with instructions clearly made, which made the construction progressed in a systematic way. After a day with tight schedule, traffic resumed normal as the last pipe was finally installed and backfilled at around 7pm.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR ENVIRONMENT

We have faith that protecting our resources and environment is the solution if we want to invest in an environmental friendly concept in every sector of our business. Therefrom, we implemented methods in treating waste, waste water, gas emissions and noise produced during the manufacturing process. Delicacy management and informatization were applied to build up a green office. By gradually reducing these consequences made to the environment, we hope to achieve the target in operating with low-carbon.

Management in Greenhouse Gas Emissions and Energy

Power consumption is our major source of greenhouse gases. For this reason, we took a number of energy saving measures, such as optimizing the power system and building design, purchasing imported energy saving production equipment and electronics; adjusting the sewage treatment equipment according to the quality of imported water. Other than that, we suggested our employees to save energy by offering them a guide in living with low-carbon, encouraging them to train their habits in switching off lights, controlling air-conditioner temperature etc. Yichun Fangke Sewage Treatment Company Limited implemented automated production control and limited the power density by conversion, throughout the year, 2 million kWh were saved.

Indicator	Unit	2018	2017
Total Energy Consumption	MWh	**398,139.12**	223,461.87
Purchased Electricity	MWh	**32,683.33**	35,336.07
Gasoline	MWh	**1,174.53**	1,516.05
Diesel	MWh	**557.33**	616.06
Natural Gas	MWh	**22.10**	–
Landfill gas*	MWh	**363,701.83**	185,993.69
Total Energy Consumption Intensity	MWh/thousand HKD	**0.42**	0.60

* Included landfill gas consumption for the generation of sold electricity.

Exhaust gas emitted from the Group mainly comes from residue of oily gases, carbon monoxide, carbon dioxide; black smoke and exhaust gas of irregularities produced by canteen stoves, production machinery, electricity generators and different types of vehicles. Regarding to the events of electricity from landfill gas, we controlled the torch system in incinerating these landfill gas in high temperature when the quality is unacceptable, there is the stoppage of recycling device or occurance in an excess of gas supply. We burn down or use harmless treatment in handling these hazardous substances. We regularly conduct check-ups for prevention and control in landfill gas, that is when we discover any non-conformity, we will amend and record them in a timely manner. We have entrusted a City Environmental Monitoring Centre to calculate air pollution emissions according to the Formulas in Monitoring and Measuring, if we have found any incompatible situations, we will follow along the Inappropriate, Corrective and Preventive Measures to make amendments. In the interest of reducing fume emission from cooking, we installed purifying devices at the canteen. When we make purchase of equipment, under the prerequisite of performance requirement, we give priority to those with low air emission or emission density.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Unit	2018	2017
Total Greenhouse Gas (GHG) Emissions (Scope 1 & 2)	Tonnes of CO_2 equivalent	**19,000.35**	20,815.97
Direct Emissions (Scope 1)	Tonnes of CO_2 equivalent	**496.57**	552.48
Indirect Emissions (Scope 2)	Tonnes of CO_2 equivalent	**18,527.59**	20,287.29
GHG Removal (Tree Plantation) (Scope 1)	Tonnes of CO_2 equivalent	**23.81**	23.81
GHG Emissions (Biogenic)*	Tonnes of CO_2 equivalent	**163,988.25**	77,886.17
Total GHG Emissions Intensity (Scope 1 & 2)#	kg of CO_2 equivalent/ thousand HKD	**20.00**	56.16
Nitrogen Oxides (NOx)*	kg	**225,291.02**	107,070.70
Sulphur Oxides (SOx)*	kg	**79,504.12**	37,760.83
Particulate Matter (PM)*	kg	**19,044.87**	9,053.66

* Biogenic emission represents GHG emission from landfill gas electricity generation and that the calculation has Included landfill gas consumption for the generation of sold electricity.

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

Wastewater Management in relation to Renewable Energy

We treat reducing polluted water as our responsibility. Therefore, apart from reassuring wastewater pollutants match with the national standard, we also encouraged in discovering methods in lowering the emission rate and density. We will follow the regulations in treating wastewater which has not been handled properly, and send them to appropriate organizations in solving the problem. In the presence of disaster happening, we have formulated contingency plans in order to prevent polluted water from spreading, minimize the impact which can be made to the environment, citizens and our business. For the convenience in setting our target and in compliance with regulations in draining waste water, we keep in contact with the City Environmental Monitoring Centre regularly so that we will be the first one to know if any changes are made to the wastewater pollutant discharge index.

Water Management

Apart from carefully handling wastewater to reduce the pollution it makes to the environment, we understand that reducing waste at source is the best solution towards sustaining green business operations. Thus, we have been carrying out our policy in conserving water proactively. By installing water saving devices, eliminating outdated high water consumption level apparatuses, these methods help to prevent unwanted water wastage. Besides, we encourage the habit of recycling; utilizing these wastewater for greening, landscaping and sprinkling water on the road. Yichun Fangke Sewage Treatment Company Limited had implemented a method in taking advantage of reclaimed water, which resulted in saving 183,600m^3.

Indicator	Unit	2018	2017
Total Water Consumption*	m^3	**37,181.00**	85,414.19
Total Water Consumption Intensity	m^3/thousand HKD	**0.04**	0.23

* Water consumption of 2017 and 2018 represent 8 and 7 project companies respectively.

Noise Management

Due to the necessity of our business operations, it is inevitably that we have to use ventilators which create high frequencies of noises and also mechanical devices or motor vehicles with strong vibration. In view of this, we arranged properly for the aforementioned equipment with effective devices which can help to cancel or reduce the volume of noises and lessen vibration etc. This also support the need to be in comply with Type II of the Emission Standard for Industrial Enterprises Noise at Boundary(GB12348-2008).

Solid Waste Management

We follow the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes (GB18599-2001) to store and dispose regular sold waste, and according to the Directory of National Hazardous Wastes to handle properly of recyclable and non-recyclable waste.

We will firstly recycle regular waste items such as scrap iron, waste cloth, waste paper and send them to designated recycler; together with non-recyclable items, we will also make proper arrangement to handle them.

Within the factory area, we set up a liquid waste storage area and facilities which aligns with requirements in becoming environmentally-friendly. Moreover, we place in reference to the Standard for Pollution Control Hazardous Waste Storage in collecting and dispersing waste mineral oil or hazardous waste from other categories. We hand in these hazardous waste to eligible processer, so that it will make a parallel with policies e.g. Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes. This is to protect health of the public, environment and to prevent from being affected by hazardous waste.

To ensure that our recycler has sufficient resources in recycling waste, we conduct spot check regularly and supervision to the recycler. In the area of waste management, in order to reduce the amount of waste, our Environmental Management Team will hold a semi-annually check-up on waste management, to guarantee that waste management has been completed perfectly and has lessened the impact made to the environment.

Indicator	Unit	2018	2017
Total Hazardous Waste	Tonnes	**479.26**	588.55
Waste Oil and Waste Containing Oil	Tonnes	**68.95**	59.75
Waste Catalysts	Tonnes	**3.69**	115.80
Sludge	Tonnes	**405.62**	413.00
Battery	Tonnes	**1.00**	–
Total Hazardous Waste Intensity	kg/thousand HKD	**0.50**	1.59
Total Non-Hazardous Waste	Tonnes	**64.31**	67.87*
Recycled			
Metal	Tonnes	**–**	1.34
Food Waste	Tonnes	**12.92**	1.20
Other General Refuse	Tonnes	**5.79**	2.47
Disposed			
Plastic	Tonnes	**–**	0.30
Food Waste	Tonnes	**0.30**	10.97
Other General Refuse	Tonnes	**45.30**	51.59
Total Non-Hazardous Waste Intensity	kg/thousand HKD	**0.07**	0.10*

* Figures of non-hazardous waste for 2017 have been revised.

OUR EMPLOYEES

Approach to Employment

Morality first, professional oriented, unlock people's potential.

Integrity, teamwork and strive to the best.

People Management

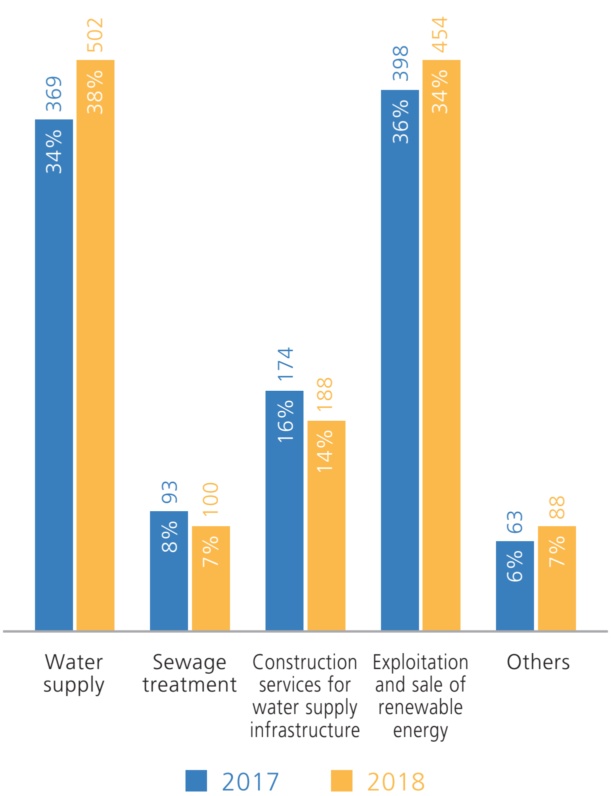
The Group deeply knows that we needed contributions from our employees in order to achieve today's success, this is the reason why human resources became our valuable assets. Apart from trying to retain our talents; in the area of recruiting new talents, mainly we post advertisements on newspapers, bulletin boards, talent market, job centers, talent websites, internal promotions or referrals from coworkers etc. This helps the Group to bring in new blood and promote business growth.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

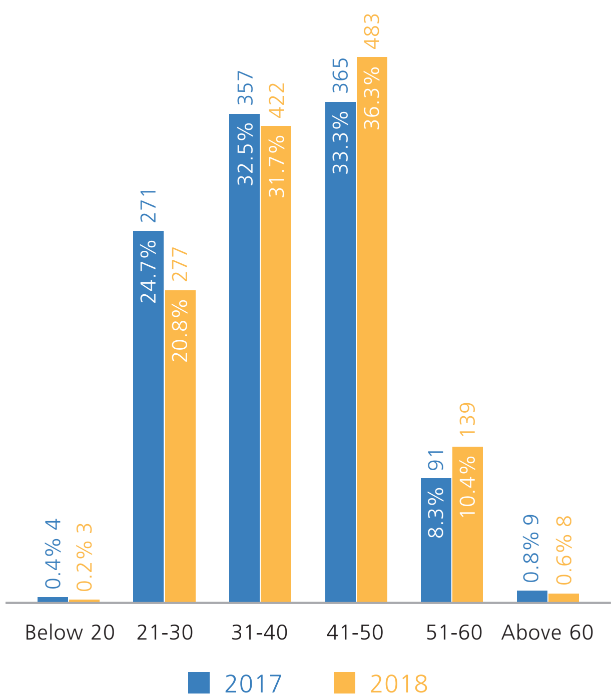
We have always adhered the principle of merit, during the process of recruitment, benefits, promotions and dismissal, no matter whether the applicant or the current employee's gender, nationality, age, religion, marital status, sexual orientation, disability etc., we guaranteed that they all have equal opportunities. Furthermore, to let employees attain new experiences, skills and knowledge from different positions, we offer internal transfer prospects for self-enhancement.

As of 31st December, 2018, The Group consists of 1,332 employees; 461 are female workers, which equals to 35% of total employees. All our employees are located in China (including Hong Kong S.A.R.).

Distribution of employee by business segment

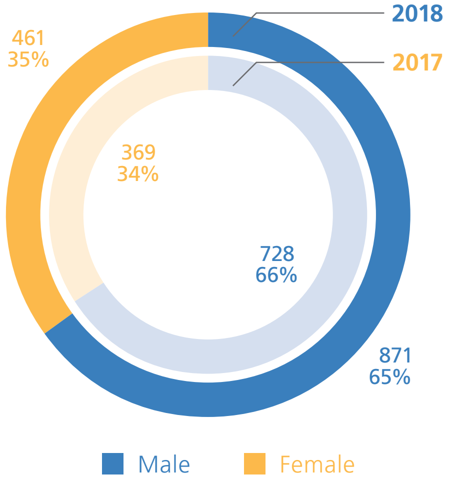


Distribution of employee by age group

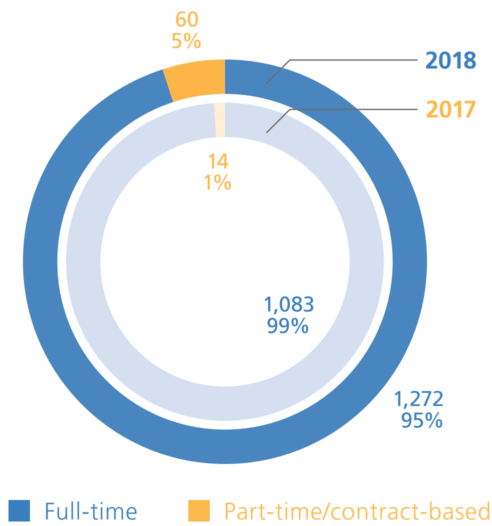


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

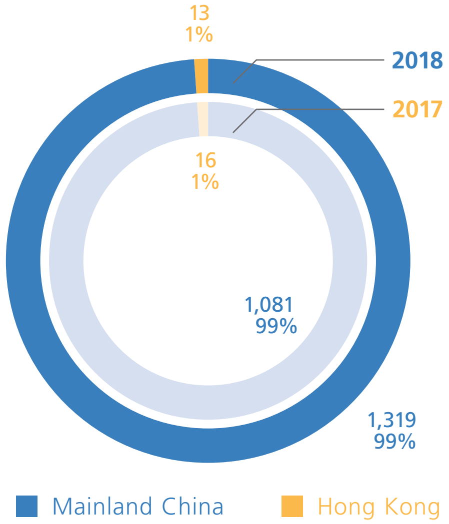
Distribution of employee by gender



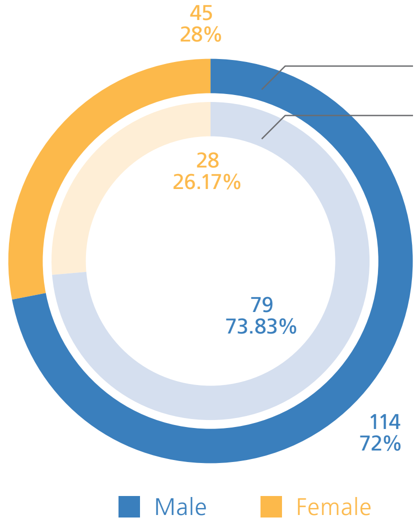
Distribution of employee by employee category



Distribution of employee by region

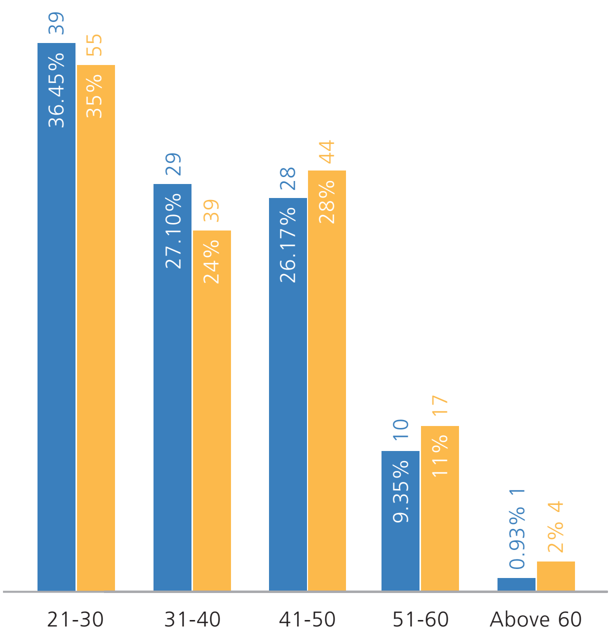


Staff turnover by gender

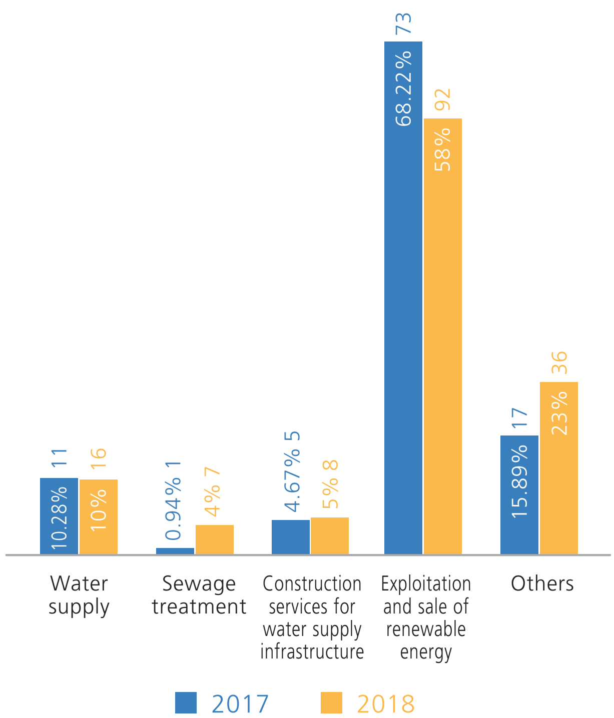


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

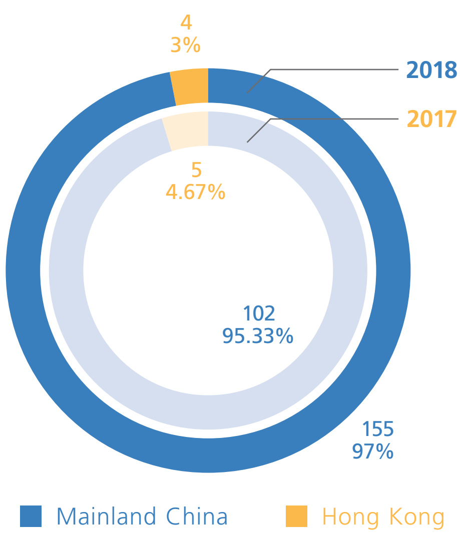
Staff turnover by age group



Staff turnover by business segment



Staff turnover by region



Protection for Our Female Employees

Based on equal opportunities and fair treatment policy, we have a protection policy for our female employees. For reasons such as pregnancy, maternity leave, breastfeeding period etc., they are protected from being unlawfully dismissed. It is also guaranteed that they will attain basic salary, whilst they will not become a victim of discrimination in any wage review, promotions or work arrangement; we hope that this can help to protect their rights. In addition, for pregnant employees, we will make necessary arrangements, to avoid them from being in contact with tasks that will be harmful to their health.

Occupational Health and Safety

Safe production can protect employees, and also elevate a corporate's image, this is why we take this very seriously. We carry out safety education periodically, reminding our employees to take safety precautions before starting to work, together with how following safe working procedures can help to prevent work injuries. We comply with Fire Protection Law of the People's Republic of China, Production Safety Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China, Prevention and Control of Occupational Diseases Law of the People's Republic of China, Administrative Regulations on the Safety of Hazardous Chemicals, Provisions on the Supervision and Regulation of Workplace Occupational Health and other applicable laws and regulations, to implement a safe responsibility system and to provide our employees a safe and healthy working environment.

Since our business is related to hot work, working at height, cutting work, noise, harmful gas, flammable and explosive items etc., we have established an operational safety team to ensure of production safety. This team is responsible for supervising the implementation of safety production, the development of safety production practices and performing inspection of these safety procedures.

The following are some of the measures set up to protect employees' occupational health and safety:

- Place of usage and storage points for flammable and explosive items and prohibit smoking;
- Conduct regular inspections to eliminate fire hazards;
- Provide protective equipment such as insulated gloves and shoes, dust/gas masks and earplugs, and also often remind employees to properly carry them;
- Arrange specialized personnel in using open fire, electric welding and other processes;
- Ensure employees have received adequate trainings such as in some project companies, new employees are required to undergo three levels of safety education courses; pass relevant tests and obtain safety certificates before officially beginning their jobs;
- Require employees in specialized operations to obtain special operations certificates;
- Place safety alert signs at working stations;
- Arrange medical examination and occupational health check for employees in every two years;
- Conduct regular safety drills;
- Conduct safety checks every week; solve problems in a timely manner;
- Develop a comprehensive contingency plan that addresses all types of emergencies for example, chemical spills, electric shocks, gas accidents, equipment operating accidents, natural disasters, major casualties, suspension of power supply, fires, and serious accidents involving employees;
- Set up a safety emergency command team, to provide employees with detailed guidelines and programmes;
- Ideal employees will be chosen to attain external professional trainings at fire departments and hospitals etc., so that employees can escape in an orderly manner and receive immediate treatment in case of emergencies;
- Conduct regular health check for canteen food products, regular cleanings at canteens and residences, this is to ensure our chefs' health and providing fresh ingredients for cooking;
- Prevent infectious diseases and control pests to protect employees' health and safety.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

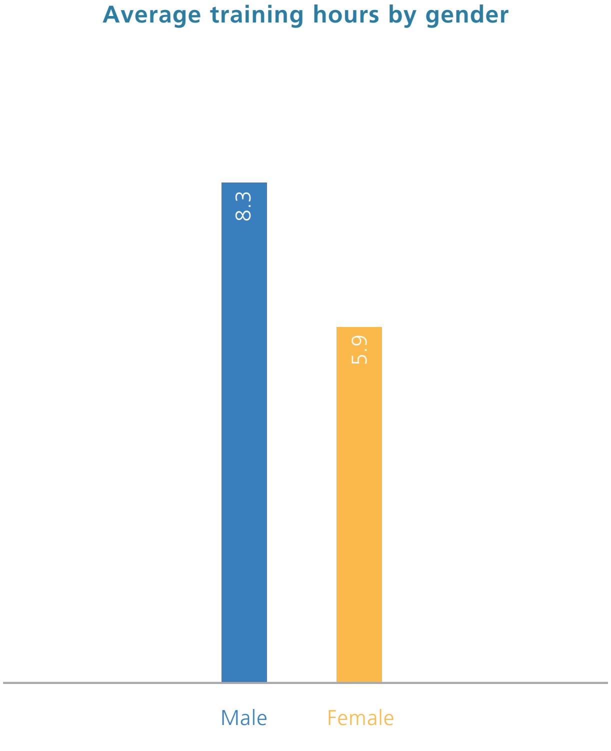
Employee Sharing

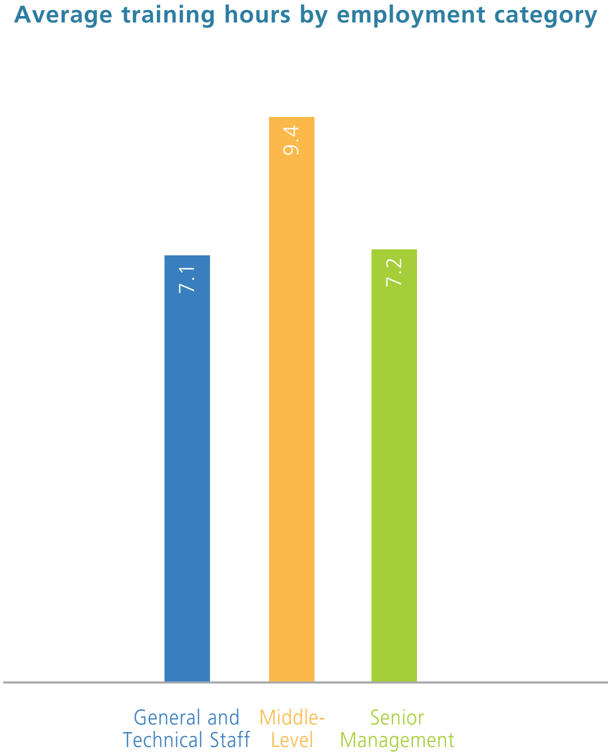
I still remember when I first joined the Group, I was doing internship under the project in Liuyang, Hunan. Senior colleagues shared everything with me which made me feel that the working environment is pleasant and desirable. That was how I spent my days during the internship in Liuyang. At the moment, I am working under the project in Danzhou, Hainan, a project built from scratch. During the construction of the new project, whenever project arose, there would be solutions from the project leaders and professionals. These solutions also passed to us as valuable knowledge. Production safety is always our top priority. Industry professionals are always invited by the management to hold safety training for us. As such, I deeply feel that the management care about us and provide a pleasant working environment to us. I would like to express my gratitude to management and senior colleagues who have taught me knowledge in various aspects so that we can strive for the goals of the Group.

Staff of Hainan Danzhou New China Water Environmental Technology Limited

Employee Trainings

Trainings not only can improve employees' overall performance, professional skills and strengthen a corporate's competitiveness, it allows employees from different departments to come together which will improve each department's communications and cohesion. Each year we hold a variety of training courses to cater the needs of employees in attaining professional knowledge and skills in various operations. There are project companies who established online schools and uploaded training videos so that it will be convenient for employees to receive training and review the content at anytime. Apart from regular trainings, the project companies will also select outstanding employees and appoint them to different institutions to receive professional trainings. Or else there will be external professional trainers visiting our project companies and offer trainings to our employees, so to enhance the technical skills of our employees.





The Development of Online Monitor Training for Yichun Water Industry Co., Ltd

Drinking water safety is a significant basis for ensuring sustainable urban development. High-quality and safe drinking water are not the only reliable guarantee for building a healthy society, at the same time it is also one of the factors in further building and developing a harmonious society. To further enhance our ability in online monitoring for ensuring drinking water safety, on 11th September, Yichun Water Industry Co., Ltd invited a supplier – SWAN Analytical Instruments to provide training to the employees. To our understanding, the content of this training includes meter sampling, electrical connection and installation, instrument introduction (online disinfectant analyzer, online turbidity analyzer, online ammonia nitrogen analyzer, online pH analyzer) and common fault analysis and processing etc. During the training, employees were humble when they learned from their teachers, they also interacted proactively which ended in a very effective result. Through this training, the feedbacks from employees showed that they had thorough understandings of online monitoring, they believe it will be useful to their jobs in the future and can provide better protection in delivering safe water to the city.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Two-way Communication

Building up an open-minded method of two-way communication is the basis of maintaining trust and cooperation that is longlasting. We conduct interviews and periodically give out questionnaires to our employees in order to evaluate their feedbacks and thoughts. Besides, we notify our employees regarding to the updates of policies and tactics of the management team and operations through e-mails, meetings and announcements. Our internal magazine "Sound of Water" not only includes updates of the Group's and project companies' news, policies and industry news, but it also serves as a platform for employees to share poetries, proses or other forms of compositions. To increase the cohesion within the Group and reinforce the Group's credibility, every year, we hold a discussion of "Sound of Water" to ensure the consistency of each project company and internal culture of the Group.

Employee Benefits

We think that employers who respect the benefits of employees is the best attitude needed to retain and attract talents. Therefore, we strictly follow regulations such as the "Labour Law of the People's Republic of China", "Labour Contract Law of the People's Republic of China", "Implementing Regulations of the Labour Contract Law of the People's Republic of China" and "Law of the People's Republic of China on the Protection of Women's Rights and Interests" etc. We do no encourage employees to work overtime, if the department requires employees to work overtime due to production needs; to protect employees' benefits and health, we already stated that the working hours for them should not exceed 60 hours; they cannot work overtime for more than 36 hours per month. We ensure that for every 6 consecutive work days, they will gain a holiday for 24 hours continuously and receive appropriate overtime salary according to the labour laws.

Project companies not only provide full-time employees with statutory employee benefits (including social security plan, paternity leave, bereavement leave and sick leave), we also offer different additional benefits, for example, employee housing quarters, holiday allowances, travel allowances, communication allowances and meals etc. Moreover, to further strengthen the protection of employees, we have purchased business insurances for them and their families.

We fully support our employees' scope of power. Our human resources policies are based on equality, there will never be gender and racial discrimination. The Group strictly enforce the hiring procedures, to eliminate any occasions of child labours and forced labours. We insist that our employees must have sufficient time offs and holidays, so that they can come to work full of energy and it is also the reason why we were in a serious attitude in implementing relevant regulations on paid annual leave. Likewise, to protect the occupational health and safety of our employees, we hold health check, special type of medical examinations and enhance our employees' working environment consistently.

We hope to learn from our employees about our policy implementation and employee ethics, as a result, we have a complaint or suggestion procedure, this helps to create a communication channel for employees and management level, and also to resolve problems and conflicts in a friendly approach. Employees can complain through mailbox, phone or personal interview etc. In order to protect the privacy of the complaining employee, the Union will not disclose the content of the complaint without consent.

While we are recruiting talents, the Group complies in accordance with the principles of impartiality and voluntary. According to the "Labour Law of the People's Republic of China" and "Provisions on the Prohibition of Using Child Labour", we will not recruit any candidates who have not fulfilled the local legal working age; by compulsory or deceptive means such as seizing employee identification cards or other valid documents. The Group arranges appropriate working hours, day offs and meal breaks for our employees and will make overtime payments according to the Labour Laws.

For each of our new employee who join us, we will have our labour contracts signed and have their social insurance paid. We issue Employee Handbook to state the corporate management policies, employee compensation, leaves, benefits and etc. Employees will be notified whenever there is any change on it.

Work Life Balance

Employees will only be healthy, energetic and reach for the best at work when they can strive a balance between work and life. Every year we organize a variety of recreational activities regularly such as sports competitions, ball games, outdoor activities etc., we hope our employees will feel relax through these events and help to improve their communications and teamwork, and ultimately boost team cohension. Below are some of the employee events which were held in larger scale:

Sport Activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Executive Sailing Activities

Sharing Results

Commendations and rewards are the best ways to encourage employees in working hard, it also represents the Group's appreciation towards their contribution. Thereby, the Group will hold commendation annually, we give out titles such as "Enterprise Award", "Group Management Enterprise Gold/Silver", "Best Corporate Management Award", "Best Service Award", "Best Contribution Award", "Best Recommendation Award" etc., this is to publicly recognize project companies and employees who are outstanding for the year. Other than that, individual project companies also commend excellent employees at year-end meetings.

OUR COMMUNITY

As a responsible corporate citizen, apart from providing high quality services, we are also committed to serving the surrounding communities and contribute to our society. We actively participate in different kinds of community activities. We hope to promote long-term community development, bring positive changes to the community, and hope that our good deeds can be passed on in the community.

Volunteer Events

- Chinese medicine volunteers visited the Swan (Huizhou) Investment Company Limited, the Chinese medicine practitioners helped our employees to measure their pulse rate and blood pressure, through communication with the employees, the practitioners provided guidance to make them feel aware of their health problems and hidden dangers. Advice were given to them regarding to Chinese medicine conditioning and prevention health care knowledge after consulting about their daily habits. These advice served as reminders for them to change their habits as needed and need to participate in more trainings.

- Yichun Water Industry Co., Ltd stood out from the crowd within the construction services parties, as they secured every month that there will be one day that the members of the party will hold a voluntary activity, to build a platform for grassroots level, entrance to community and provide practical services to the public. During the 4-hour event, the party was divided into groups to serve more than 50 people, and distributed more than 200 pieces of leaflets to the public, which attracted a large crowd in participating.

- Under the guidance of the Committee of Yichun Comprehensive Administrative Enforcement Bureau, Yichun Water Industry Co., Ltd started a special "Learning Day" for the members. They will be the core members for this voluntary service team, and they had cooperated with Yichun Charity volunteers in visiting the Xinfang Town Home for the Aged and held a "Cooling for Summer, Caring for Elderly" charity event.

- The Yichun Charity organized a charity event by forming 8 sub-units with more than 30 volunteers in gifting watermelons to the public to cool down their summer.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Promoting Environmental Protection

- Chendu City Green State Renewable Energy Co., Limited had organized an event welcoming teachers and students from the Chengdu Qizhong Middle School/Affiliated Primary School in touring the project company. In the event, the project company explained the production process of biogas power generation with touring and explanation with photos. The tour ended with a talk with the topic of environmental friendly and a game in sorting waste.

- Huizhou Honghu Blue Valley Wisdom Square project site ushered in the "Chief Service Officer" company to lead the transformation of green ecological industry with "scientific and technological innovation". This project pays attention to the sustainable development of the green industry, returning to the society with with real economic development results. Bringing future to Huizhou, and also leaving a green environment to the city.

Charity Donations

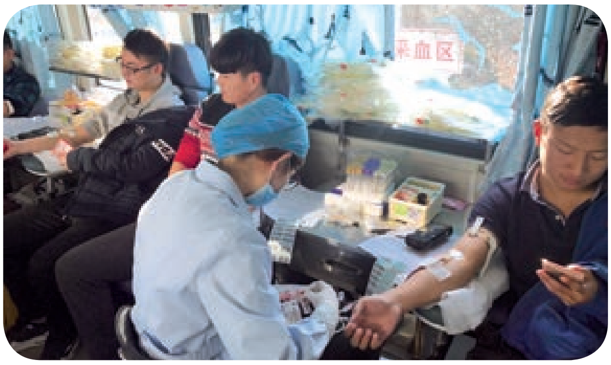
- All employees from all departments and subsidiaries from the Group had participated in a charity event with Gansu Jingtai County Guangmingxing (甘肅景泰縣光明行), with a total of RMB95,344 donations raised.

- On a breakfast crowdfunding event organized by Liuyang City Charity Association (瀏陽市慈善會組織), Hunan Liuyang New China Water Environmental Technology Company Limited (湖南瀏陽新中水環保科技有限公司) had donated an amount of RMB5,000 to frontline sanitation workers for breakfast meals.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Green Education Activities

The 27th National Water Conservation Promotion Week for the Beijing Lu Primary School



Blood Donation Events

2018 Crowdfunding for Breakfast Event

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

"Cooling for Summer, Caring for Elderly" Charity Event

When hot summer arrives, many people would prefer to stay at home for the weekend, enjoy some ice-creams and stay at a air-conditioned place watching television instead of going outdoors. However, there was a loveable water supply team, they gave up to rest during the weekend but chose to volunteer under the leadership of the volunteer team. How meaningful it is to work under the hot sun?

On 28 July, under the guidance of the Committee of Yichun Comprehensive Administrative Enforcement Bureau, Yichun Water Industry Co., Ltd started a special "Learning Day" for the members. They will be the core members for this voluntary service team, and they had cooperated with Yichun Charity volunteers in visiting the Xinfang Town Home for the Aged and held a "Cooling for Summer, Caring for Elderly" charity event. Thanks to the devotion and dedication made by the volunteers which had led to such a successful charity event. Everyone was touched after seeing these elderlies enjoying eating watermelons and dumplings, watching cultural programs and received gifts that they liked while showing appreciation for the hardwork given from the volunteers. The volunteers hope to be more active in participating future charity events, hoping to spread their love and affecting more people around them.

KEY ENVIRONMENTAL DATA

In view of the major sources of carbon emissions, the Group will continue to assess, record and disclose annual greenhouse gas emissions and other environmental data, and use the 2017 annual data as a benchmark to make an appropriate annual comparison with the current year's data to review the effectiveness of the current measures. It will help us further develop emission reduction targets in the future.

Indicator[1,2]	Unit	2018	2017
Total Greenhouse Gas (GHG) Emissions (Scope 1 & 2)	Tonnes of CO_2 equivalent	**19,000.35**	20,815.97
Direct Emissions (Scope 1)	Tonnes of CO_2 equivalent	**496.57**	552.48
Indirect Emissions (Scope 2)	Tonnes of CO_2 equivalent	**18,527.59**	20,287.29
GHG Removal (Tree Plantation) (Scope 1)	Tonnes of CO_2 equivalent	**23.81**	23.81
GHG Emissions (Biogenic)[3,5]	Tonnes of CO_2 equivalent	**163,988.25**	77,886.17
Total GHG Emissions Intensity (Scope 1 & 2)[4]	kg of CO_2 equivalent/ thousand HKD	**20.00**	56.16
Nitrogen Oxides (NOx)[5]	kg	**225,291.02**	107,070.70
Sulphur Oxides (SOx)[5]	kg	**79,504.12**	37,760.83
Particulate Matter (PM)[5]	kg	**19,044.87**	9,053.66
Total Energy Consumption	MWh	**398,139.12**	223,461.87
Purchased Electricity	MWh	**32,683.33**	35,336.07
Gasoline	MWh	**1,174.53**	1,516.05
Diesel	MWh	**557.33**	616.06
Natural Gas	MWh	**22.10**	–
Landfill gas[5]	MWh	**363,701.83**	185,993.69
Total Energy Consumption Intensity	MWh/thousand HKD	**0.42**	0.60
Total Water Consumption[6]	m^3	**37,181.00**	85,414.19
Total Water Consumption Intensity	m^3/thousand HKD	**0.04**	0.23

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator[1,2]	Unit	2018	2017
Total Hazardous Waste	Tonnes	**479.26**	588.55
Waste Oil and Waste Containing Oil	Tonnes	**68.95**	59.75
Waste Catalysts	Tonnes	**3.69**	115.80
Sludge	Tonnes	**405.62**	413.00
Battery	Tonnes	**1.00**	–
Total Hazardous Waste Intensity	kg/thousand HKD	**0.50**	1.59
Total Non-Hazardous Waste	Tonnes	**64.31**	67.87[7]
Recycled			
Metal	Tonnes	**–**	1.34
Food Waste	Tonnes	**12.92**	1.20
Other General Refuse	Tonnes	**5.79**	2.47
Disposed			
Plastic	Tonnes	**–**	0.30
Food Waste	Tonnes	**0.30**	10.97[7]
Other General Refuse	Tonnes	**45.30**	51.59[7]
Total Non-Hazardous Waste Intensity	kg/thousand HKD	**0.07**	0.10[7]

1. Reporting scope includes 11 project companies.
2. Due to our business nature, no packaging material have been used.
3. Biogenic emission represents GHG emission from landfill gas electricity generation.
4. Total GHG emission intensity (Scope 1 and 2) excludes biogenic emission. In accordance with The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, emissions data for direct GHG emissions from combustion of biomass or biofuels should be reported separately.
5. Included landfill gas consumption for the generation of sold electricity.
6. Water consumption of 2017 and 2018 represent 8 and 7 project companies.
7. Figures of non-hazardous waste for 2017 have been revised.

HKEX ESG REPORTING GUIDE CONTENT INDEX TABLE

Indicator		**Chapter/Disclosure**	**Page**
A. Environmental			
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Our Business & Our Environment	85-94
KPI A1.1	The types of emissions and respective emissions data.	Our Business & Our Environment	85-94
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and intensity.	Our Business & Our Environment	85-94
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Our Business & Our Environment	85-94
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	Our Business & Our Environment	85-94
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Our Business & Our Environment	85-94
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Our Business & Our Environment	85-94

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Chapter/Disclosure	Page
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		Our Business & Our Environment	85-94
KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in ’000s) and intensity.	Our Business & Our Environment	85-94
KPI A2.2	Water consumption in total and intensity.	Our Business & Our Environment	85-94
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Our Business & Our Environment	85-94
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Our Business & Our Environment There is no issue in sourcing water that is fit for purpose.	85-94
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	Not applicable to our business.	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimizing the issuer’s significant impact on the environment and natural resources.		Our Business & Our Environment	85-94
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Our Business & Our Environment	85-94

Indicator		Chapter/Disclosure	Page
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Our Employees	95-104
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Our Employees	95-104
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Our Employees	95-104
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Occupational Health and Safety	98-99
KPI B2.1	Number and rate of work-related fatalities.	Not disclosed during the Reporting Period.	N/A
KPI B2.2	Lost days due to work injury.	Not disclosed during the Reporting Period.	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	98-99

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Chapter/Disclosure	Page
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Employee Training	100-101
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed during the Reporting Period.	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Employee Training	101
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Our "Recruitment Management Policy" comply to the national's "Prohibition of the use of Child Labour Regulation" and explicitly prohibit the use of those who are under the age of 16. During the Reporting Period, there is no reported case of the use of child labour.	N/A
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	We review the "Recruitment Management Policy" annually to avoid the use of child labour and forced labour.	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	We impose punishment to those who violate the Group's rule of using child labour and forced labour. We also set up a penal to ensure the victims are adequately protected.	N/A

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		Chapter/Disclosure	Page
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supplier Management	84-85
KPI B5.1	Number of suppliers by geographical region.	Not disclosed during the Reporting Period.	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier Management	84-85
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Health and Safety of products and services Our Business Advertising, labelling and privacy We comply with relevant laws to keep users' privacy confidential. During the Reporting Period, there is no reported complain case concerning advertising, labelling and privacy.	85-91
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable to our business.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed during the Reporting Period.	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not disclosed during the Reporting Period.	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	Quality Assurance Process Our Business Recall Procedures Not applicable to our business.	85-91 N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Business Integrity	83-84

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator		**Chapter/Disclosure**	**Page**
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Business Integrity There is no reported case of violation of the relevant laws and regulations.	83-84
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	There is no occurred or on-going case of legal cases regarding corrupt practices brought against us or our employees during the reporting year.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Business Integrity	83-84
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Our Community	105-108
KPI B8.1	Focus areas of contribution.	Not disclosed during the Reporting Period.	N/A
KPI B8.2	Resources contributed to the focus area.	Not disclosed during the Reporting Period.	N/A

INDEPENDENT AUDITOR'S REPORT

Crowe

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

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

OPINION

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 123 to 280, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition For water customers with water meters, the amount recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. This is a key judgment because the estimated usage is based upon historical data and assumptions around consumption patterns.	We have reviewed the design and implementation of management's controls around this risk; We have challenged the key assumptions and estimates made by management in recognising revenue. We performed detailed analytical procedures by comparing revenue balance for the year against the total sales value of units supplied at the year ended. We also assessed the adequacy of the Group's disclosures of its revenue recognition and other related disclosures.
Impairment assessment The Group has HK$907,612,000 of property, plant and equipment, HK$636,312,000 of operating concession intangible assets; and HK$247,920,000 of other intangible assets. Their recoverable amount is based on an assessment of the greater of its fair value less cost of disposal and its value in use. Value in use is calculated as the net present value of estimated future cash flows. The Group's assessment of impairment is a judgmental process which requires estimates concerning the estimated future cash flows and associated discount and growth rate based on management's view of future business prospects.	We assessed and challenged the impairment analysis prepared by the board of directors as outlined below:– With regard to the overall impairment assessments performed by the board of directors, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We also reviewed the assets not assessed by management for impairment indicators and no indicators were identified. We assessed the qualification independence and reputation of the independent external valuation expert. We evaluated the reasonableness of the management cash flow forecasts by comparing the assumptions made to internal and external data. We tested these assumptions by reference to third party documentation where available.

KEY AUDIT MATTERS *(Continued)*

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

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all 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.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the audit committee in discharging their responsibilities 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. This report is made solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the 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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2019

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	7	**950,166**	701,524
Cost of sales		**(553,433)**	(432,685)
Gross profit		**396,733**	268,839
Other operating income and expenses	9	**77,277**	97,758
Reversal of impairment loss recognised on trade and other receivables	6(a)	**–**	95
Selling and distribution expenses		**(40,325)**	(34,252)
Administrative expenses		**(237,013)**	(188,408)
Finance costs	10	**(47,559)**	(33,780)
Change in fair value of investment properties	20	**12,476**	1,223
Net loss on financial assets at fair value through profit or loss		**(26,778)**	(40,733)
Net loss on disposal of available-for-sale investments		**–**	(12,238)
Impairment loss recognised on:			
property, plant and equipment	16	**(4,950)**	–
concession intangible assets	18	**–**	(1,512)
goodwill	21	**(8,587)**	(3,824)
other intangible assets	21	**(10,093)**	–
available-for-sale investments	22	**–**	(1,774)
trade and other receivables	6(a)	**(6,513)**	(2,334)
Share of profit/(loss) of associates	24	**2,689**	(3,955)
Share of loss of a joint venture	25	**(124)**	–
Profit before taxation		**107,233**	45,105
Income tax	11	**(41,651)**	(34,203)
Profit for the year	12	**65,582**	10,902
Attributable to:			
Owners of the Company		**6,646**	(49,111)
Non-controlling interests		**58,936**	60,013
		65,582	10,902
Earnings/(loss) per share (HK cents):	15		
Basic		**0.42**	(3.08)
Diluted		**0.42**	(3.08)

The notes on pages 133 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit for the year		**65,582**	10,902
Other comprehensive (loss)/income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations			
Exchange difference arising during the year		**(99,250)**	138,587
		(99,250)	138,587
Available-for-sale investments:			
Net loss arising on revaluation of available-for-sale investments during the year		**–**	(1,368)
Reclassification upon impairment		**–**	1,774
Reclassification adjustments relating to available-for-sale investments disposed of during the year		**–**	(8,894)
		–	(8,488)
Financial assets at fair value through other comprehensive income:			
Net loss arising on revaluation of financial assets at fair value through other comprehensive income during the year		**(10,508)**	–
Share of other comprehensive loss of associates	*24*	**(4,955)**	(8,570)
Share of other comprehensive loss of a joint venture	*25*	**(479)**	–
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of investment properties upon transfer from property, plant and equipment		**11,115**	1,754
Deferred tax liability arising on gain on revaluation of investment properties		**(2,779)**	(439)
		8,336	1,315
Other comprehensive (loss)/income for the year, net of income tax		**(106,856)**	122,844
Total comprehensive (loss)/income for the year		**(41,274)**	133,746
Attributable to:			
Owners of the Company		**(86,003)**	41,547
Non-controlling interests		**44,729**	92,199
		(41,274)	133,746

The notes on pages 133 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**907,612**	671,738
Deposits paid for acquisition of property, plant and equipment		**16,806**	17,021
Deposits paid for acquisition of subsidiaries		**3,416**	31,218
Prepaid lease payments	17	**169,861**	128,517
Operating concessions	18	**636,312**	578,286
Receivables under service concession arrangements	18	**23,290**	28,948
Investment properties	20	**73,348**	46,792
Other non-current assets	19	**19,753**	20,832
Other intangible assets	21	**247,920**	296,655
Available-for-sale investments	22	**–**	18,601
Financial assets at fair value through other comprehensive income	22	**54,583**	–
Interests in associates	24	**6,133**	59,009
Interests in a joint venture	25	**11,721**	–
Deferred tax assets	39	**9,173**	10,208
Deposit and prepayments	28	**2,277**	–
		2,182,205	1,907,825
Current assets			
Inventories	26	**187,568**	193,757
Receivables under service concession arrangements	18	**4,158**	4,923
Financial assets at fair value through profit or loss	22	**84,015**	40,576
Trade and other receivables	28	**625,844**	631,983
Prepaid lease payments	17	**4,191**	11,064
Amounts due from customers for contract works		**–**	19,276
Contract assets	27	**15,490**	–
Cash held by financial institutions	29	**2,371**	353
Bank balances and cash	29	**403,045**	317,796
Amount due from a joint venture		**228**	–
		1,326,910	1,219,728
Assets held for sale	30	**51,597**	–
		1,378,507	1,219,728

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Current liabilities			
Overdraft held at financial institutions	29	**55,550**	20,266
Trade and other payables	31	**285,374**	219,804
Amounts due to customers for contract works		**–**	214,781
Contract liabilities	27	**309,371**	–
Bank borrowings	32	**55,362**	70,833
Other loans	33	**40,319**	253,586
Obligations under finance leases	34	**91,500**	45,667
Amounts due to non-controlling shareholders of subsidiaries	35	**695**	132
Loans from associates	36	**–**	3,148
Deposit received from disposal of associates	30	**86,352**	–
Amounts due to associates	35	**2,070**	–
Deposit received from disposal of a subsidiary		**5,693**	–
Tax payables		**20,508**	23,269
		952,794	851,486
Liabilities directly associated with the assets held for sale	30	**2,985**	–
		955,779	851,486
Net current assets		**422,728**	368,242
Total assets less current liabilities		**2,604,933**	2,276,067
Capital and reserves			
Share capital	37(b)	**798,270**	798,270
Share premium and reserves		**421,126**	507,129
Equity attributable to owners of the Company		**1,219,396**	1,305,399
Non-controlling interests		**543,014**	514,237
TOTAL EQUITY		**1,762,410**	1,819,636

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Other payables	31	**11,991**	–
Bank borrowings	32	**57,915**	96,267
Other loans	33	**544,725**	188,690
Obligations under finance leases	34	**117,167**	56,597
Government grants	38	**30,721**	34,803
Deferred tax liabilities	39	**80,004**	80,074
		842,523	456,431
		2,604,933	2,276,067

Approved and authorised for issue by the board of directors on 28 March 2019:

Lin Yue Hui
Director

Liu Feng
Director

The notes on pages 133 to 280 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital *HK$'000* *(note 37(b))*	Share premium *HK$'000* *(note 37(c))*	Revaluation reserve *HK$'000* *(note 37(c))*	Translation reserve *HK$'000* *(note 37(c))*	Reserve fund *HK$'000* *(note 37(c))*	Investment revaluation reserve *HK$'000* *(note 37(c))*	Fair value reserve (non-recycling) *HK$'000* *(note 37(c))*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2017	798,270	954,318	1,748	(75,506)	42,214	8,893	–	(466,085)	1,263,852	374,355	1,638,207
Changes in equity for 2017:											
(Loss)/profit for the year	–	–	–	–	–	–	–	(49,111)	(49,111)	60,013	10,902
Other comprehensive income/(loss) for the year:											
Gain on revaluation of investment properties upon transfer from properties, plant and equipment	–	–	895	–	–	–	–	–	895	859	1,754
Deferred tax liability arising from revaluation on investment properties	–	–	(224)	–	–	–	–	–	(224)	(215)	(439)
Exchange difference arising on translation	–	–	1	107,044	–	–		–	107,045	31,542	138,587
Share of other comprehensive loss of associates	–	–	–	(8,570)	–	–	–	–	(8,570)	–	(8,570)
Fair value loss on available-for-sale investments	–	–	–	–	–	(1,368)	–	–	(1,368)	–	(1,368)
Reclassification on impairment of available-for-sale investments	–	–	–	–	–	1,774	–	–	1,774	–	1,774
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	–	–	–	(8,894)	–	–	(8,894)	–	(8,894)
Total comprehensive income/(loss) for the year	–	–	672	98,474	–	(8,488)	–	(49,111)	41,547	92,199	133,746
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	(11,793)	(11,793)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	1,499	1,499
Acquisition through business combination (note 40)	–	–	–	–	–	–	–	–	–	57,977	57,977
Transfers to reserve funds	–	–	–	–	13,833	–	–	(13,833)	–	–	–
At 31 December 2017	798,270	954,318	2,420	22,968	56,047	405	–	(529,029)	1,305,399	514,237	1,819,636

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital	Share premium	Revaluation reserve	Translation reserve	Reserve fund	Investment revaluation reserve	Fair value reserve (non-recycling)	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note 37(b))	*(note 37(c))*	*(note 37(c))*	*(note 37(c))*	*(note 37(c))*	*(note 37(c))*	*(note 37(c))*				
Balance at 1 January 2018	798,270	954,318	2,420	22,968	56,047	405	–	(529,029)	1,305,399	514,237	1,819,636
Impact on initial application of HKFRS 9 *(note 2(a))*	–	–	–	–	–	(405)	405	–	–	–	–
Adjusted balance at 1 January 2018	798,270	954,318	2,420	22,968	56,047	–	405	(529,029)	1,305,399	514,237	1,819,636
Changes in equity for 2018:											
Profit for the year	–	–	–	–	–	–	–	6,646	6,646	58,936	65,582
Other comprehensive income/(loss) for the year:											
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	5,669	–	–	–	–	–	5,669	5,446	11,115
Deferred tax arising from revaluation on investment property	–	–	(1,417)	–	–	–	–	–	(1,417)	(1,362)	(2,779)
Exchange difference arising on translation	–	–	–	(80,959)	–	–	–	–	(80,959)	(18,291)	(99,250)
Share of other comprehensive loss of associates	–	–	–	(4,955)	–	–	–	–	(4,955)	–	(4,955)
Share of other comprehensive loss of a joint venture	–	–	–	(479)	–	–	–	–	(479)	–	(479)
Fair value loss on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(10,508)	–	(10,508)	–	(10,508)
Total comprehensive income/(loss) for the year	–	–	4,252	(86,393)	–	–	(10,508)	6,646	(86,003)	44,729	(41,274)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	(2,207)	(2,207)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	1,186	1,186
Acquisition through business combination (note 40)	–	–	–	–	–	–	–	–	–	3,159	3,159
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(18,090)	(18,090)
Transfers to reserve funds	–	–	–	–	19,665	–	–	(19,665)	–	–	–
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	(907)	907	–	–	–
At 31 December 2018	798,270	954,318	6,672	(63,425)	75,712	–	(11,010)	(541,141)	1,219,396	543,014	1,762,410

The notes on pages 133 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit before taxation	**107,233**	45,105
Adjustments for:		
Depreciation of property, plant and equipment	**73,929**	56,826
Amortisation of prepaid lease payments	**3,262**	1,720
Amortisation of concession intangible assets	**39,551**	29,309
Amortisation of other intangible assets	**31,707**	31,005
Impairment loss recognised on:		
– property, plant and equipment	**4,950**	–
– concession intangible assets	**–**	1,512
– goodwill	**8,587**	3,824
– other intangible assets	**10,093**	–
– available-for-sale investments	**–**	1,774
– trade and other receivables	**6,513**	2,334
Reversal of impairment loss recognised on trade and other receivables	**–**	(95)
Change in fair value of investment properties	**(12,476)**	(1,223)
Finance costs	**47,559**	33,780
Interest income	**(25,106)**	(22,154)
Government grant income	**(7,900)**	(11,978)
Loss/(gain) on disposal of property, plant and equipment and prepaid land lease, net	**486**	(66)
Loss on disposal of concession intangible assets	**748**	–
Write off of accounts payable	**(1,990)**	–
Net loss on disposal of available-for-sale investments	**–**	12,238
Net loss on financial assets at fair value through profit or loss	**26,778**	40,733
Share of (profit)/loss of associates	**(2,689)**	3,955
Share of loss of a joint venture	**124**	–
Changes in working capital:		
Decrease in inventories	**33,857**	4,946
Increase in trade and other receivables	**(116,835)**	(9,618)
Decrease in receivables under services concession arrangements	**6,423**	2,744
Increase in amounts due from customers for contract works	**–**	(14,294)
Decrease in contract assets	**3,785**	–
Increase/(decrease) in trade and other payables	**52,004**	(102,672)
Increase in amounts due to customers for contract works	**–**	59,000
Increase in contract liabilities	**51,348**	–
Cash generated from operations	**341,941**	168,705
Income taxes paid	**(46,057)**	(38,784)
Net cash generated from operating activities	**295,884**	129,921

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Investing activities		
Acquisition of assets, net of cash acquired	**(115)**	–
Purchase of property, plant and equipment	**(276,051)**	(197,036)
Deposits paid for acquisition of property, plant and equipment	**(16,805)**	(17,021)
Payments for acquisition of prepaid lease payment	**(15,757)**	(27,209)
Proceeds from disposal of property, plant and equipment and prepaid lease payment	**117**	2,713
Acquisition of operating concessions	**(103,009)**	(48,531)
Acquisition of other intangible assets	**(48)**	(1,097)
Purchase of available-for-sale investments	**–**	(201,555)
Proceeds from disposal of available-for-sale investments	**–**	250,891
Proceeds from disposal of financial assets at fair value through other comprehensive income	**12,460**	–
Purchase of financial assets at fair value through profit or loss	**–**	(162,735)
Purchase of financial assets at fair value through other comprehensive income	**(58,950)**	–
Proceeds from disposal of financial assets at fair value through profit or loss	**173,737**	215,183
Purchase of financial assets at fair value through profit or loss	**(243,955)**	–
Acquisition of subsidiaries, net of cash acquired	**2,176**	(36,782)
Deposits paid for acquisition of subsidiaries	**(3,416)**	(1,449)
Interest received	**31,636**	13,608
Loans to third parties	**(290,179)**	(178,142)
Repayment of loans from third parties	**290,333**	103,700
Deposit paid for bidding land	**–**	(115,430)
Refund of deposit paid for bidding land	**118,600**	–
Deposit received from disposal of associates	**86,352**	–
Settlement of consideration payables	**–**	(22,251)
Government grants received	**5,525**	13,204
Deposit received from disposal of a subsidiary	**5,693**	–
Capital contribution to associates	**(986)**	–
Capital contribution to a joint venture	**(12,324)**	–
Net cash used in investing activities	**(294,966)**	(409,939)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Financing activities		
Proceeds from new bank borrowings and other loans	**189,031**	388,210
Repayment of bank borrowings and other loans	**(392,130)**	(295,955)
Repayment of loans from third parties	**(1,898)**	–
Advanced from/(repayments to) non-controlling shareholders	**569**	(32,676)
Capital contribution from non-controlling shareholders	**1,186**	1,499
Acquisition of non-controlling interests	**(2,207)**	(11,793)
Proceeds from obligations of finance leases	**189,858**	92,697
Repayments of finance leases	**(73,695)**	(26,507)
Advance from associates	**2,156**	221
Advance to a joint venture	**(228)**	–
Loans from third parties	**200,546**	1,845
Interest paid	**(51,224)**	(37,379)
Dividend paid to non-controlling shareholders	**(18,090)**	–
Net cash generated from financing activities	**43,874**	80,162
Net increase/(decrease) in cash and cash equivalents	**44,792**	(199,856)
Cash and cash equivalents at 1 January	**297,883**	459,179
Effect of foreign exchange rates changes	**7,191**	38,560
Cash and cash equivalents at 31 December	**349,866**	297,883
Analysis of the balance of cash and cash equivalents		
Cash held by financial institutions	**2,371**	353
Bank balances and cash	**403,045**	317,796
Overdraft held at financial institutions	**(55,550)**	(20,266)
Cash and cash equivalents at 31 December	**349,866**	297,883

The notes on pages 133 to 280 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

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

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

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

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK (IFRIC) 22	Foreign currency transactions and advance consideration

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

HKFRS 9 Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(a) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

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

The financial assets held by the Group include financial assets previously classified as available-for-sale investment under HKAS 39, and that have reclassified as financial assets at fair value through other comprehensive income under HKFRS 9. Except for the above, the application of HKFRS 9 does not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 31 December 2018.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

(a) Classification of financial assets and financial liabilities (Continued)

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

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

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 3(n), (o), (r) and (s).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

(b) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, receivables under services concession arrangements and amount due from a joint venture); and

- contract assets as defined in HKFRS 15 (note 3(q)).

The Group has applied the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for accounts receivables. Except for those which had been determined as credit impaired under HKAS 39, accounts receivables are grouped based on past due analysis. ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances, loan receivables, amount due from a joint venture, other receivables and receivables under service concession arrangements, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits.

For further details on the Group's accounting policy for accounting for credit losses, see note 3(o).

(c) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held; and

  - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(a) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 15 Revenue from contracts with customers *(Continued)*

(a) Timing of revenue recognition (Continued)

The timing of revenue recognition is affected as follows:

Accounting for revenue from construction contracts

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

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

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

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HKFRS 15 Revenue from contracts with customers *(Continued)*

(c) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (note 3(aa)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (note 3(q)).

To reflect these changes in presentation the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15.

	At 31 December 2017 *HK$'000*	Impact on initial application of HKFRS 15 *HK$'000*	**At 1 January 2018** ***HK$'000***
Current assets			
Amounts due from customers for contract works	19,276	(19,276)	–
Contract assets	–	19,276	**19,276**
Current liabilities			
Amounts due to customers for contract works	(214,781)	214,781	–
Trade and other payables	(219,804)	43,242	**(176,562)**
Contract liabilities	–	(258,023)	**(258,023)**

There is no significant impact on the Group's financial position and financial results upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") *(Continued)*

HK (IFRIC) 22 Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interest in associates.

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

– investment properties (note 20);

– financial instruments classified as financial assets measured at FVOCI; financial assets carried at FVPL (note 22)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c)(i) Business combinations

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c)(ii) Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(d) Goodwill

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investments in subsidiaries and non-controlling interests

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

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identification assets.

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

Changes in the Group's ownership interests in existing subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Changes in the Group's ownership interests in existing subsidiaries (Continued)

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

(f) Investments in associates and joint ventures

The Group is a party of joint arrangement when it exercises joint control over arrangement by acting collectively with other parties and decisions about the relevant activities require unanimous consent of the parties sharing control. The joint arrangement is either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement.

In relation to interest in joint operations, the Group recognises: (i) its assets, including its share of any assets held jointly, (ii) liabilities, including its share of any liabilities incurred jointly, (iii) revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operations, and (v) its expenses, including its share of any expenses incurred jointly.

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

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (note 3(af)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment. The cost of the investment includes purchase price, after costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (note 3(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates and joint ventures *(Continued)*

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

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (note 3(n)).

(g) Property, plant and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest held to earn rentals and/or for capital appreciation. Investment property includes land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its carrying amount at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment" up to the date of change in use.

(j) Concession intangible assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets *(Continued)*

Consideration given by the grantor

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

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

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

(k) Intangible assets (other than goodwill)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Operating concessions

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

Exclusive rights

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

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

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

(l) Leasehold land and buildings for own use

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on construction or upgrade services of infrastructure under a service concession arrangement under the control of the customer and therefore the group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

The likelihood of the group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 3(ae).

Revenue for construction contracts was recognised on a similar basis in the comparative period under HKAS 11.

(n) Classification and subsequent measurement of financial assets

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments (note 6(d)). These investments are subsequently accounted for as follows, depending on their classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Classification and subsequent measurement of financial assets *(Continued)*

A. Policy applicable from 1 January 2018:

Financial assets that meet the following conditions are subsequently measured at amortised cost:

– the financial asset is held within a business model whose objective is to collect contractual cash flows; and

– the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVOCI:

– the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

– the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVPL.

Amortised cost and interest income

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (that is, assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Classification and subsequent measurement of financial assets *(Continued)*

A. Policy applicable from 1 January 2018: (Continued)

Amortised cost and interest income (Continued)

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Equity investments

An investment in equity securities is classified as fair value at profit or loss (FVPL) unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at fair value through other comprehensive income (FVOCI) (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 3(aa).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Classification and subsequent measurement of financial assets *(Continued)*

B. Policy applicable prior to 1 January 2018:

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in note 3(aa). Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 3(o)(ii) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Classification and subsequent measurement of financial assets *(Continued)*

B. Policy applicable prior to 1 January 2018: (Continued)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

A. Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, receivables under services concession arrangements and amount due from a joint venture); and

– contract assets as defined in HKFRS 15 (note 3(q)).

Financial assets measured at fair value, including equity securities measured at FVPL and equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

A. Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

A. Policy applicable from 1 January 2018 *(Continued)*

Significant increases in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 3(aa) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

A. Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

B. Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse impact on the debtor or counterparty; or

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in associates accounted for under the equity method in the consolidated financial statements (note 3(f)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(o)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(o)(ii).

– For unquoted equity securities carried at cost, impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

B. Policy applicable prior to 1 January 2018 *(Continued)*

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

B. Policy applicable prior to 1 January 2018 (Continued)

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– prepaid lease payments;

– goodwill;

– concession intangible assets;

– other intangible assets;

– deposits paid;

– other non-current assets; and

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Credit losses from financial guarantees issued

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Credit losses and impairment of assets *(Continued)*

(iii) Credit losses from financial guarantees issued (Continued)

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

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

A. Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 3(o)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

B. Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(i) Properties held for/under development for sale

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

(ii) Trading goods

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

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

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

(q) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (note 3(aa)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 3(o)(i) and are reclassified to receivables when the right to the consideration has become unconditional (note 3(o)(i)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (note 3(aa)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (note 3(r)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Contract assets and contract liabilities *(Continued)*

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (note 3(aa)).

(r) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (note 3(q)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (note 3(o)(i)).

(s) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and financial institutions and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above. Cash and cash equivalents are assessed for expected credit losses (ECLs) in accordance with the policy set out in note 3(o)(i).

(t) Borrowings

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

(u) Trade and other payables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Derivative financial instruments

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

(w) Equity-settled share-based payment transactions

(i) Share options granted to employees

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

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

(ii) Share options granted to eligible persons

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Other employee benefits

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

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

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

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

(ii) Termination benefits

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

(y) Government grants

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(Continued)*

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

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

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

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income *(Continued)*

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

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

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

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

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

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

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

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

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (note 3(q)).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income *(Continued)*

In the comparative period, revenue from the sale of properties was recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which was taken to be the point in time when the risks and rewards of ownership of the property had passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition were included in the statement of financial position under forward sales deposits received.

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

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

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (note 3(o)(i)).

(ab) Foreign currencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ab) Foreign currencies *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Leased assets

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

(i) Classification of assets leased to the Group

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

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

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

(ii) Assets acquired under finance leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Leased assets *(Continued)*

(iii) Operating lease charges

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

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

(iv) Sale and leaseback transactions

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

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

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

(ad) Borrowing costs

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ae) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(af) Non-current assets held for sale and discontinued operations

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non – current asset is not depreciated or amortised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ag) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ah) Segment reporting

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

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

(ai) Equity instruments

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

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

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

As at 31 December 2018, the carrying amount of property, plant and equipment was approximately HK$907,612,000 (2017: HK$671,738,000). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

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

As at 31 December 2018, the carrying amount of prepaid lease payments was approximately HK$174,052,000 (2017: HK$139,581,000). Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty *(Continued)*

(iv) Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables is disclosed in notes 3(o) and 28 respectively.

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

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amounts of other receivables and loan receivables are HK$108,757,000 (2017: HK$377,841,000) and HK$77,145,000 (2017: HK$84,483,000) respectively (net of accumulated impairment losses of HK$7,886,000 (2017: HK$3,204,000) and HK$56,279,000 (2017: HK$54,844,000) respectively.

(vi) Impairment loss of operating concession and exclusive rights

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision. As at 31 December 2018, the carrying amounts of operating concession are HK$636,312,000 (2017: HK$578,286,000). As at 31 December 2018, the carrying amounts of exclusive rights are HK$204,892,000 (2017: HK$248,342,000).

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

Key sources of estimation uncertainty *(Continued)*

(vii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill was HK$43,028,000 (2017: HK$48,313,000) (net of accumulated impairment losses of HK$239,703,000 (2017: HK$244,105,000)). Details of impairment testing on goodwill are set out in note 21.

(viii) Revenue from construction contracts

(i) Revenue recognition

Accounting for revenue from construction contracts

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

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

(ix) Deferred tax assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty *(Continued)*

(x) Estimation of water consumption

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

The actual consumption could deviate from those estimates.

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

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2018 were HK$636,312,000 (2017: HK$578,286,000) and HK$27,488,000 (2017: HK$33,871,000), respectively, further details of which are set out in note 18 to the consolidated financial statements.

(xii) Fair value estimates on acquisition of subsidiaries

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

5. CAPITAL MANAGEMENT

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

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

5. CAPITAL MANAGEMENT *(Continued)*

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

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

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

The gearing ratios as at 31 December 2018 and 2017 are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Overdraft held at financial institutions	**55,550**	20,266
Bank borrowings	**113,277**	167,100
Other loans	**585,044**	442,276
Amounts due to non-controlling shareholders of subsidiaries	**695**	132
Amounts due to associates	**2,070**	–
Loans from associates	**–**	3,148
Obligations under finance leases	**208,667**	102,264
Total debt	**965,303**	735,186
Less: Cash held by financial institutions	**(2,371)**	(353)
Bank balances and cash	**(403,045)**	(317,796)
Cash and cash equivalents	**(405,416)**	(318,149)
Net debt	**559,887**	417,037
Equity attributable to owners of the Company	**1,219,396**	1,305,399
Gearing ratio	**45.92%**	31.95%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to trade and other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with high credit rating assigned by international credit rating agencies, for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0-180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

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

(a) Credit risk *(Continued)*

Trade receivables (Continued)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix or individual assessment on each debt at the end of each reporting period. As the Group's historical loss experience does not indicate significantly different loss pattern, the Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 as at 31 December 2018.

The Group used average loss rates ranging from 0.2% to 3.1%. Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables and were adjusted for any forward-looking information that was available without undue cost or effort.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (note 3(o)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$3,848,000 were determined to be impaired. The aging analysis of trade receivables that were not considered to be impaired was as follows:

	2017 *HK$'000*
Neither past due nor impaired	101,242
Within 90 days past due	–
91 to 180 days past due	2,869
181 to 365 days past due	840
Over 1 year	1,215
	106,166

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

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For the year ended 31 December 2018

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

(a) Credit risk *(Continued)*

Comparative information under HKAS 39 (Continued)

The movements in the loss on trade receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**3,848**	2,347
Impairment loss recognised	**27**	1,473
Reversal of impairment loss	**–**	(95)
Uncollectible amounts written off	**(26)**	(107)
Exchange realignment	**(198)**	230
At 31 December	**3,651**	3,848

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$3,651,000 (2017: HK$3,848,000) which are long outstanding.

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during 2018:

– origination of new trade receivables net of those settled in and;

– increase in days past due over 180 days resulted in an increase in loss allowance

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

(a) Credit risk *(Continued)*

Other receivables

Impairment losses in respect of other receivables 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. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

The movements in the allowance of doubtful debts on other receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**3,204**	4,858
Impairment loss recognised	**5,050**	861
Uncollectible amounts written off	**–**	(2,696)
Exchange realignment	**(368)**	181
At 31 December	**7,886**	3,204

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$7,886,000 (2017: HK$3,204,000) which are long outstanding. The management considered the recovery of certain other receivables HK$Nil (2017: HK$2,696,000) is remote, and the amount considered irrecoverable and written off against other receivables.

Loan receivables

Impairment losses in respect of loan receivables 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. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

The movements in the allowance of doubtful debts on loan receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**54,844**	54,844
Impairment loss recognised	**1,436**	–
Exchange realignment	**(1)**	–
At 31 December	**56,279**	54,844

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

(a) Credit risk *(Continued)*

Loan receivables (Continued)

Included in the impairment loss are individually impaired loan receivables with an aggregate balance of HK$56,279,000 (2017: HK$54,844,000) which are long outstanding. The Group does not hold any collateral over these balances.

(b) Liquidity risk

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

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

2018

	On demand *HK$'000*	Within 1 years *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Carrying amount *HK$'000*
Non-derivative financial liabilities							
Trade and other payables	23,959	273,406	–	–	–	297,365	297,365
Obligations under finance lease	–	103,761	77,269	49,734	518	231,282	208,667
Bank borrowings and other loans	6,831	130,981	184,858	196,294	284,770	803,734	698,321
Amounts due to non-controlling shareholders	695	–	–	–	–	695	695
Amounts due to associates	2,070	–	–	–	–	2,070	2,070
	33,555	508,148	262,127	246,028	285,288	1,335,146	1,207,118

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

(b) Liquidity risk *(Continued)*

2017

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

(c) Market risk

(i) Currency risk

Exposure to currency risk

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

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

	Exposure to foreign currencies (expressed in HK$'000)			
	2018		2017	
	USD	***RMB***	*USD*	*RMB*
Assets	**418**	**145**	54	281

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

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

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses
		HK$'000		*HK$'000*
Renminbi	**5%**	**6**	5%	12
	(5%)	**(6)**	(5%)	(12)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(c) Market risk *(Continued)*

(ii) Interest rate risk

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

The Group is primarily exposed to fair value interest rate risk in relation to bank borrowings, other loans, obligations under finance leases, amounts due to non-controlling shareholders of subsidiaries, amounts due to associates and loans from associates (notes 32, 33, 34, 35 and 36 for details) for the years ended 31 December 2018 and 2017. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

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

	2018		2017	
	Effective interest rate		Effective interest rate	
	%	***HK$'000***	%	*HK$'000*
Fixed rate borrowings:				
Bank borrowings	**4.57%-8.00%**	**113,277**	4.32%-7.13%	167,100
Other loans	**0%-11.83%**	**384,584**	0%-14.63%	431,470
Obligations under finance leases	**5.30%-7.80%**	**208,667**	5.36%-7.00%	102,264
Amounts due to non-controlling shareholders of subsidiaries	**0%**	**695**	0%	132
Amounts due to associates	**0%**	**2,070**	–	–
Loans from associates	**–**	**–**	4.35%	3,148
		709,293		704,114
Variable rate borrowings:				
Other loans	**5.20%-7.43%**	**200,460**	4.91%	10,806
		200,460		10,806
Total borrowings		**909,753**		714,920
Fixed rate borrowings as a percentage of total borrowings		**78%**		98%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Sensitivity analysis

As 31 December 2018, it is estimated that a general increase/decrease of 50 basis points (2017: 50 basis points) with all other variables held constant, would have decreased/increased the Group's profit for the year (2017: decreased/increased the Group's profit for the year) and increased/decreased the accumulated losses by approximately HK$752,000 (2017: HK$41,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The sensitivity analysis above has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis as 2017.

(iii) Equity price risk

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

Sensitivity analysis

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

Financial assets at FVPL

At 31 December 2018, if the prices of the respective financial assets at fair value through profit or loss had been 10% (2017: 10%) higher/lower, profit after tax would increase/decrease by HK$7,015,000 (2017: profit after tax would increase/decrease by HK$3,388,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

Financial assets at FVOCI

At 31 December 2018, if the prices of the respective financial assets at fair value through other comprehensive income had been 10% higher/lower, the fair value reserve (non-recycling) would increase/decrease by HK$5,458,000 as a result of the changes in fair value of financial assets at fair value through other comprehensive income.

Available-for-sale investments

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

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

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

(i) Financial instruments carried at fair value

Fair value hierarchy

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

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

Fair value hierarchy (Continued)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Assets				
Financial assets at FVPL				
Held-for-trading				
– listed equity securities	**84,015**	**–**	**–**	**84,015**
Financial assets at FVOCI				
– Equity investments	**54,583**	**–**	**–**	**54,583**

	2017			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Assets				
Available-for-sale investments				
– Equity investments	18,601	–	–	18,601
Financial assets at FVPL				
Held for trading				
– listed equity securities	40,576	–	–	40,576

During the years ended 31 December 2018 and 2017, there were no significant transfers between instruments levels.

(ii) Financial instruments carried at other than fair value

The carrying amounts of the Group's other financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Disaggregated by major products or service lines:		
Water supply services	**162,595**	129,172
Sewage treatment services	**47,771**	44,331
Water supply related installation and construction income	**242,719**	241,561
Water supply and sewage treatment infrastructure construction income	**63,757**	48,483
Sale of electricity	**386,774**	194,605
Sale of compressed natural gas	**19,520**	29,827
Service income from collection of landfill gas	**27,030**	13,545
	950,166	701,524

Sales of electricity to provincial power grid companies included tariff adjustment received and receivable from the relevant government authorities.

Note:

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (note 3).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. SEGMENT REPORTING

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

The Group has identified the following reportable segments:

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

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

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

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results

Disaggregation of revenue from contracts with customers by the timing of revenue recognition as well as information regarding the Group's reportable and operating segments, are set out below.

For the year ended 31 December 2018

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue			
Disaggregated by timing of revenue recognition:			
Point in time	**232,244**	**433,324**	**665,568**
Over time	**284,598**	**–**	**284,598**
Reportable segment revenue	**516,842**	**433,324**	**950,166**
Reportable segment profit	**130,532**	**107,738**	**238,270**
Unallocated corporate expenses			**(83,936)**
Interest income			**21,696**
Interest on overdraft held at financial institutions			**(4,256)**
Interest on fixed coupon bonds			**(37,763)**
Net loss on financial assets at fair value through profit or loss			**(26,778)**
Profit before taxation			**107,233**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

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

For the year ended 31 December 2017

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue			
Disaggregated by timing of revenue recognition:			
Point in time	201,943	237,977	439,920
Over time	261,604	–	261,604
Reportable segment revenue	463,547	237,977	701,524
Reportable segment profit	132,495	40,197	172,692
Unallocated corporate expenses			(49,110)
Interest income			1,943
Interest on overdraft held at financial institutions			(2,591)
Interest on fixed coupon bonds			(23,084)
Net loss on financial assets at fair value through profit or loss			(40,733)
Net loss on disposal of available-for-sale investments			(12,238)
Impairment loss recognised on available-for-sale investment			(1,774)
Profit before taxation			45,105

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2018

	Provision of water supply sewage treatment and construction services HK$'000	Exploitation and sale of renewable energy HK$'000	Corporate HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	3,294	116	21,696	–	25,106
Interest expenses	(1,389)	(8,407)	(37,763)	–	(47,559)
Share of profit/(loss) of associates	2,719	(30)	–	–	2,689
Share of loss of a joint venture	(124)	–	–	–	(124)
Depreciation of property, plant and equipment	(4,454)	(63,708)	(5,767)	–	(73,929)
Amortisation of:					
– Prepaid lease payments	(1,133)	(22)	(2,107)	–	(3,262)
– Concession intangible assets	(26,238)	(13,313)	–	–	(39,551)
– Other intangible assets	–	(31,707)	–	–	(31,707)
Loss on disposal of property, plant and equipment and prepaid lease payments	(119)	(322)	(45)	–	(486)
Loss on disposal of concession intangible assets	(17)	(731)	–	–	(748)
Impairment loss recognised on:					
– Property, plant and equipment	–	(4,950)	–	–	(4,950)
– Goodwill	–	(8,587)	–	–	(8,587)
– Other intangible assets	–	(10,093)	–	–	(10,093)
– Trade and other receivables	(1,498)	(3,580)	(1,435)	–	(6,513)
Reportable segment assets	1,004,654	1,425,340	1,003,539	127,179	3,560,712
Additions to non-current assets	76,070	336,915	198,506	2,277	613,768
Reportable segment liabilities	(508,540)	(608,936)	(391,690)	(289,136)	(1,798,302)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2017

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	19,678	533	1,943	–	22,154
Interest expenses	(1,487)	(6,610)	(25,683)	–	(33,780)
Share of losses of associates	(3,955)	–	–	–	(3,955)
Depreciation of property, plant and equipment	(5,366)	(49,374)	(2,086)	–	(56,826)
Amortisation of:					
– Prepaid lease payments	(1,104)	–	(616)	–	(1,720)
– Concession intangible assets	(24,639)	(4,670)	–	–	(29,309)
– Other intangible assets	–	(31,005)	–	–	(31,005)
Gain/(loss) on disposal of property, plant and equipment and prepaid lease payments	15	(7)	58	–	66
Net loss on disposal of available-for-sale investments	–	–	(12,238)	–	(12,238)
Impairment loss recognised on:					
– Trade and other receivables	(1,951)	(383)	–	–	(2,334)
– Available-for-sale investments	–	–	(1,774)	–	(1,774)
– Goodwill	–	(3,824)	–	–	(3,824)
– Concession intangible assets	(1,512)	–	–	–	(1,512)
Reversal of impairment loss recognised on trade and other receivables	93	2	–	–	95
Reportable segment assets	1,240,104	1,254,241	514,172	119,036	3,127,553
Additions to non-current assets	72,121	183,557	25,349	–	281,027
Reportable segment liabilities	(346,231)	(395,445)	(478,126)	(88,115)	(1,307,917)

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of overdraft held at financial institutions and other unallocated corporate liabilities.

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

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2017: nil).

The measure used for reporting segment profit is "adjusted profit before tax". To arrive at adjusted profit before tax the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as interest on overdraft held at financial institutions, change in fair value of financial assets at fair value through profit or loss, net loss on disposal of investments, impairment loss recognised on available-for-sale investments, directors' and auditors' remuneration and other head office or corporate administration costs.

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

For the years ended 31 December 2018 and 2017, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. OTHER OPERATING INCOME AND EXPENSES

	2018 HK$'000	2017 HK$'000
Interest income on:		
– bank deposits	**3,673**	4,522
– loans *(note (a))*	**21,433**	17,632
Total interest income on financial assets not at fair value through profit or loss	**25,106**	22,154
Government grants *(note 38)*	**7,900**	11,978
Handling charges	**2,790**	2,457
Cleaning income	**613**	519
Repair services income	**2,194**	385
Gross rentals from investment properties	**4,561**	2,116
(Loss)/gain on disposal of property, plant and equipment and prepaid lease payments, net	**(486)**	66
Loss on disposal of concession intangible assets	**(748)**	–
Revenue from sales of properties	**57,837**	19,448
Other operating expenses for each of properties	**(50,413)**	(18,581)
Gain on sales of properties, net	**7,424**	867
VAT refund	**8,831**	14,931
Rental income from leasing equipment	**–**	8,074
Write off of accounts payable	**1,990**	–
Revenue from management services	**1,406**	11,572
Project income	**–**	7,910
Others	**15,696**	14,729
	77,277	97,758

Note:

(a) During 2018, the Group earned interest income of HK$21.4 million (2017: HK$17.6 million) on loans to eleven (2017: six) unrelated parties (note 28), which bears fixed interest ranging from 4% to 31% (2017: from 10% to 36%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

10. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on:		
– bank borrowings	**6,230**	5,624
– other loans	**45,794**	41,403
– overdraft held at financial institutions	**4,258**	2,591
Finance charges on obligations under finance leases	**10,034**	3,610
Total borrowing cost	**66,316**	53,228
Less: interest capitalised included in construction in progress	**(18,757)**	(19,448)
	47,559	33,780

Included in construction-in-progress under concession intangible assets and property, plant and equipment are interest capitalised during the year of HK$18,757,000 (2017: HK$19,448,000) at the capitalisation rate of 7.63% (2017: 8.21%) per annum.

11. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Provision for the year	**–**	–
Current tax – PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**45,930**	40,317
– Over provision in respect of prior years	**(1,247)**	(1,227)
Deferred tax *(note 39)*	**(3,032)**	(4,887)
	41,651	34,203

No provision for Hong Kong profit tax has been made for the years ended 31 December 2017 and 2018 as the Company and its subsidiaries did not have assessable profit subject to Hong Kong profit tax for these years.

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

11. INCOME TAX EXPENSE *(Continued)*

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

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

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation	**107,233**	45,105
Notional tax on profit before taxation, calculated at the rate applicable to profits in the countries concerned	**31,836**	22,812
Tax effect of share of results of associates	**(309)**	989
Tax effect of share of results of a joint venture	**31**	–
Tax effect of expenses not deductible for tax purposes	**45,800**	29,989
Tax effect of income not taxable for tax purposes	**(29,559)**	(23,184)
Effect on tax exemption granted to PRC subsidiaries	**(25,514)**	(8,732)
Tax effect of tax losses and deductible temporary differences not recognised	**21,006**	13,556
Utilisation of tax losses previously not recognised	**(393)**	–
Over provision in respect of prior years	**(1,247)**	(1,227)
	41,651	34,203

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**173,547**	139,619
– Retirement benefits scheme contributions	**16,870**	15,624
Total staff costs	**190,417**	155,243
Amortisation of:		
– Prepaid lease payments	**3,262**	1,720
– Concession intangible assets	**39,551**	29,309
– Other intangible assets	**31,707**	31,005
Depreciation of property, plant and equipment	**73,929**	56,826
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payment	**486**	(66)
Loss on disposal of concession intangible assets	**748**	–
Auditors' remuneration		
– audit services	**3,475**	3,019
– other services	**924**	–
Minimum lease payments under operating leases	**8,990**	6,435
Cost of inventories sold	**178,941**	196,724
Gross rental income from investment properties less direct outgoings of approximately HK$637,000 (2017: HK$568,000)	**3,924**	1,548
Gain on sales of properties, net	**(7,424)**	(867)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, all (2017: all) were directors and chief executive whose emoluments are set out in note 46.

14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

15. EARNINGS/(LOSS) PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
Profit/(loss) attributable to the owners of the Company, used in the basic and diluted earnings/(loss) per share	**6,646**	(49,111)

	No. of shares	No. of shares
	'000	*'000*
Weighted average number of ordinary shares – basic and diluted	**1,596,540**	1,596,540
Earnings/(loss) per share (HK cents):		
Basic	**0.42**	(3.08)
Diluted	**0.42**	(3.08)

For the years ended 31 December 2018 and 2017, diluted earnings/(loss) per share equals basic earnings/(loss) per share as there was no dilutive potential share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2017	98,115	345,254	10,163	23,362	33,101	509,995
Additions	2,093	14,663	1,986	6,478	178,970	204,190
Additions – interest capitalised	–	–	–	–	15,466	15,466
Acquisition through business combination	4,406	20,179	141	105	830	25,661
Transfer to investment properties	(9,648)	–	–	–	–	(9,648)
Transfer	5,424	101,119	1,279	–	(107,822)	–
Disposals	(833)	(3,768)	(150)	(2,667)	–	(7,418)
Exchange realignment	7,339	35,887	1,111	1,841	4,049	50,227
At 31 December 2017 and 1 January 2018	**106,896**	**513,334**	**14,530**	**29,119**	**124,594**	**788,473**
Additions	**2,822**	**189,026**	**3,192**	**13,834**	**137,363**	**346,237**
Additions – interest capitalised	**–**	**–**	**–**	**–**	**11,101**	**11,101**
Acquisition through business combination	**–**	**32,521**	**–**	**81**	**–**	**32,602**
Transfer to investment properties	**(6,508)**	**–**	**–**	**–**	**–**	**(6,508)**
Transfer to inventories	**–**	**–**	**–**	**–**	**(4,546)**	**(4,546)**
Transfer	**13,365**	**56,144**	**3,851**	**–**	**(73,360)**	**–**
Disposals	**(316)**	**(691)**	**(1,103)**	**(638)**	**–**	**(2,748)**
Reclassification	**(3,696)**	**(30,784)**	**–**	**–**	**–**	**(34,480)**
Exchange realignment	**(5,972)**	**(40,455)**	**(978)**	**(1,552)**	**(8,322)**	**(57,279)**
At 31 December 2018	**106,591**	**719,095**	**19,492**	**40,844**	**186,830**	**1,072,852**
Accumulated depreciation and impairment:						
At 1 January 2017	7,534	29,528	5,111	11,297	1,995	55,465
Provided for the year	6,527	42,427	2,693	3,744	1,435	56,826
Transfer to investment properties	(1,262)	–	–	–	–	(1,262)
Eliminated on disposal	(328)	(2,931)	(143)	(1,369)	–	(4,771)
Exchange realignment	1,172	7,699	694	912	–	10,477
At 31 December 2017 and 1 January 2018	**13,643**	**76,723**	**8,355**	**14,584**	**3,430**	**116,735**
Provided for the year	**6,479**	**55,776**	**3,569**	**4,561**	**3,544**	**73,929**
Transfer to investment properties	**(463)**	**–**	**–**	**–**	**–**	**(463)**
Eliminated on disposal	**(215)**	**(503)**	**(1,053)**	**(376)**	**–**	**(2,147)**
Impairment	**–**	**4,950**	**–**	**–**	**–**	**4,950**
Reclassification	**(487)**	**(16,159)**	**–**	**–**	**–**	**(16,646)**
Exchange realignment	**(1,430)**	**(8,306)**	**(519)**	**(863)**	**–**	**(11,118)**
At 31 December 2018	**17,527**	**112,481**	**10,352**	**17,906**	**6,974**	**165,240**
Carrying values						
At 31 December 2018	**89,064**	**606,614**	**9,140**	**22,938**	**179,856**	**907,612**
At 31 December 2017	93,253	436,611	6,175	14,535	121,164	671,738

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16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2017 and 2018, all of the property usage permits of buildings have been granted by relevant government authorities.

As at 31 December 2018, none (2017: none) of the Group's buildings was pledged to secure the bank and other borrowings granted to the Group.

During the year, additions to property, plant and equipment financed by new finance lease were HK$99,688,000 (equivalent to RMB84,054,000) (2017: HK$101,004,000 (equivalent to RMB87,571,000)). At the end of the reporting period, the carrying amount of property, plant and equipment held under finance lease was HK$229,678,000 (equivalent to RMB201,738,000) (2017: HK$137,023,000 (equivalent to RMB114,119,000).

An impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA, to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, impairment loss of HK$4,950,000 was made to the carrying amount of the property, plant and equipment for the year ended 31 December 2018.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments in relation to land use rights in the PRC, and analysed for reporting purposes as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Carrying values		
At 1 January	**139,581**	105,675
Additions	**15,757**	27,209
Acquisition through assets acquisition	**62,552**	–
Acquisition through business combination	**–**	328
Transfer to investment properties	**(554)**	–
Transfer to inventories	**(32,866)**	–
Amortisation for the year	**(3,262)**	(1,720)
Exchange realignment	**(7,156)**	8,089
At 31 December	**174,052**	139,581
Current assets	**4,191**	11,064
Non-current assets	**169,861**	128,517
	174,052	139,581

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these prepaid lease payments. The directors of the Company engaged AVISTA to perform a valuation of these prepaid lease payments in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, no impairment loss was made to the carrying amounts of the prepaid lease payments for the years ended 31 December 2018 and 2017.

18. CONCESSION INTANGIBLE ASSETS

As further explained in the accounting policy for "service concession arrangements" set out in note 3(j) to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

Operating concessions

	2018	2017
	HK$'000	*HK$'000*
Cost		
At 1 January	**740,226**	604,325
Additions	**119,263**	48,531
Acquisition through business combination	**–**	38,806
Additions – interest capitalised	**7,656**	3,982
Disposals	**(19,652)**	–
Reclassification	**34,480**	–
Exchange realignment	**(38,956)**	44,582
At 31 December	**843,017**	740,226
Accumulated amortisation and Impairment		
At 1 January	**161,940**	120,531
Provided for the year	**39,551**	29,309
Impairment	**–**	1,512
Eliminated on disposal	**(2,105)**	–
Reclassification	**16,646**	–
Exchange realignment	**(9,327)**	10,588
At 31 December	**206,705**	161,940
Carrying values		
At 31 December	**636,312**	578,286

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For the year ended 31 December 2018

18. CONCESSION INTANGIBLE ASSETS *(Continued)*

Receivables under service concession arrangements

	2018	2017
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**27,448**	33,871
Impairment	**–**	–
	27,448	33,871
Portion classified as current assets	**(4,158)**	(4,923)
Non-current portion	**23,290**	28,948

The subsidiaries of the Group, Yichun Water Industry Co., Limited ("Yichun Water"), Linyi Fenghuang Water Industry Co., Ltd ("Linyi Fenghuang") and Yingtan Water Supply Co., Ltd ("Yingtan Water Supply") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of water supply plant and was granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant.

The subsidiaries of the Group, Yichun Fangke Sewage Treatment Company Limited ("Yichun Fangke"), Jining City Haiyuan Water Treatment Company Limited ("Jining Haiyuan") and Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of sewage treatment plant and was granted with an exclusive operating right for provision of sewage treatment services to the public users for a period ranging from 25 years to 29 years, commencing from the operation of the respective waste treatment plant.

The subsidiaries of the Group, Chengdu City Green State Renewable Energy Co., Limited ("Chengdu City Green State") and Chongqing Camda New Energy Equipment Company Limited entered into the service concession arrangement with the respective local government whereby the subsidiary is required to build the infrastructure of electricity plant and was granted with an exclusive operating right for provision of electricity services to the respective local government for a period of 10.5 years and 19.5 years respectively commencing from the operation of respective electricity plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights since commencement of operations. The receipt from these service concession arrangement, are contingent on the extent that public uses the services.

For the year ended 31 December 2018, the Group has recognised service concession construction revenue of HK$63,757,000 (2017: HK$48,483,000) and profit of HK$5,363,000 (2017: HK$6,717,000) during the construction periods of the service concession periods.

The recoverable amounts of the CGUs under water supply and sewage treatment which contain concession intangible assets is determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and pre-tax discount rate of 12.7% – 14.3% (2017: 14.0% – 14.5%). Cash flows beyond the five-year period have been extrapolated using a steady 2% (2017: 2%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

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For the year ended 31 December 2018

19. OTHER NON-CURRENT ASSETS

	2018 HK$'000	2017 HK$'000
At fair value		
At 1 January	**20,832**	19,369
Exchange realignment	**(1,079)**	1,463
At 31 December	**19,753**	20,832

During 2015, Yingtan Water Supply entered into agreements with a local government office to transfer all units of the investment property (the "Resumption Properties") to the local government for the development of a composite project, which Yingtan Water Supply will receive compensation including transfer of certain construction floor areas of the new premises (the "New Premises").

The fair value of the New Premises at the date of transfer has been arrived at on the basis of a valuation carried out as at that date by AVISTA, by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values. The fair value of the New Premises, estimated at HK$21,563,000, was recognised as deemed consideration during the year ended 2015.

The carrying amount of the New Premises, classified as other non-current assets, at 31 December 2018 was HK$19,753,000 (2017: HK$20,832,000).

As at 31 December 2018, the construction of New Premises had been completed, and the developer was in the process of arranging house proprietary certificate with the local government.

20. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At fair value		
At 1 January	**46,792**	32,510
Reclassified as investment properties during the year	**6,599**	8,386
Fair value recognised in revaluation reserve	**11,115**	1,754
Fair value gain recognised for the year	**12,476**	1,223
Exchange realignment	**(3,634)**	2,919
At 31 December	**73,348**	46,792

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For the year ended 31 December 2018

20. INVESTMENT PROPERTIES *(Continued)*

The fair value of the investment properties has been arrived at on the basis of a valuation carried out as year ended date by AVISTA or Shenzhen Pengxin Appraisal Limited ("Shenzhen Pengxin"), by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values.

Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

2018	**Fair value at 31 December** *HK$'000*	**Fair value measurements 31 December categorised into** **Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**73,348**	**–**	**–**	**73,348**

2017	Fair value at 31 December *HK$'000*	Fair value measurements 31 December categorised into Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	46,792	–	–	46,792

20. INVESTMENT PROPERTIES *(Continued)*

Fair value measurement of properties *(Continued)*

(i) Fair value hierarchy (Continued)

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2018. The valuations were carried out by AVISTA or Shenzhen Pengxin who have recent experience in the location and category of property being valued. The Company's directors have discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range 2018
Investment properties I			
Commercial – PRC	Income approach (term and reversionary method)	Term and reversionary yield	5% to 9% (2017: 5% to 9%)
Investment Properties II			
Commercial – PRC	Income approach (capitalisation method)	Estimated rental value (per square meter and per month)	HK$71
		Capitalisation rate	6.5%
		Rental growth rate	3%

The fair value of investment properties located in the PRC as at 31 December 2018 is determined by using income approach (term and reversionary method and capitalisation method) which largely used observable inputs (e.g. market rent, yield, etc) and taking into account on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease. The higher the vacancy rate, term and reversionary yield and capitalisation rate, the lower the fair value.

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For the year ended 31 December 2018

20. INVESTMENT PROPERTIES *(Continued)*

Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements (Continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2018	2017
	HK$'000	*HK$'000*
Investment properties – Commercial – PRC		
At 1 January	**46,792**	32,510
Reclassified as investment properties during the year	**6,599**	8,386
Fair value recognised in revaluation reserve	**11,115**	1,754
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**12,476**	1,223
Exchange realignment	**(3,634)**	2,919
At 31 December	**73,348**	46,792

Exchange adjustment of investment property are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

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21. OTHER INTANGIBLE ASSETS

	Goodwill *HK$'000*	Exclusive rights of collection and utilisation of landfill gas *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2017	257,627	186,743	444,370
Acquisition of exclusive rights	–	1,097	1,097
Acquisition of subsidiaries *(note 40)*	14,385	105,199	119,584
Exchange realignment	20,406	21,160	41,566
At 31 December 2017 and 1 January 2018	**292,418**	**314,199**	**606,617**
Acquisition of exclusive rights	**–**	**48**	**48**
Acquisition of subsidiaries *(note 40)*	**5,942**	**10,332**	**16,274**
Exchange realignment	**(15,629)**	**(17,117)**	**(32,746)**
At 31 December 2018	**282,731**	**307,462**	**590,193**
Accumulated amortisation and impairment			
At 1 January 2017	223,265	31,284	254,549
Amortisation	–	31,005	31,005
Impairment loss recognised for the year	3,824	–	3,824
Exchange realignment	17,016	3,568	20,584
At 31 December 2017 and 1 January 2018	**244,105**	**65,857**	**309,962**
Amortisation	**–**	**31,707**	**31,707**
Impairment loss recognised for the year	**8,587**	**10,093**	**18,680**
Exchange realignment	**(12,989)**	**(5,087)**	**(18,076)**
At 31 December 2018	**239,703**	**102,570**	**342,273**
Carrying values			
At 31 December 2018	**43,028**	**204,892**	**247,920**
At 31 December 2017	48,313	248,342	296,655

(i) The exclusive rights acquired upon acquisition of subsidiaries were initially recognised at fair value at the acquisition date. The exclusive rights acquired separately were initially recognised at cost. Amortisation expense for the year ended 31 December 2018 was HK$31,707,000 (2017: HK$31,005,000), of which HK$24,381,000 (2017: HK$26,922,000) and HK$7,326,000 (2017: HK$4,083,000) were recorded into cost of sales and administrative expenses, respectively.

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21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to fifteen (2017: fifteen) individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2018 and 2017 allocated to these units are as follows:

	2018	2017
	HK$'000	*HK$'000*
Water supply and sewage treatment		
Blue Mountain Hong Kong Group Limited	**–**	–
Onfar International Limited	**–**	–
Jining Haiyuan	**–**	–
Gaoming Huaxin	**–**	–
Collection and utilization of landfill gas		
Shenzhen City Li Sai Industrial Development Limited	**11,804**	12,449
Nanjing Feng Shang New Technology Limited Liability Company	**–**	8,693
Hunan Huiming Environmental Technology Limited ("Huiming Technology")	**–**	–
Datang Huayin Chenzhou Environmental Power Company Limited ("Chenzhou Environmental")	**2,675**	2,821
Datang Huayin Heng Yang Environmental Power Company Limited ("Heng Yang Environmental")	**4,745**	5,005
Baoji City Electric Power Development Co., Limited ("Baoji")	**1,376**	1,451
Chongqing Camda New Energy Equipment Company Limited ("Chongqing Camda")	**2,424**	2,557
Ningbo Qiyao New Energy Company Limited ("Ningbo Qiyao")	**77**	81
Datang Huayin Xiangtan Environmental Electricity Generation Company Limited ("Datang Huayin Xiangtan")	**1,135**	1,197
Shandong Qiyao New Energy Company Limited ("Shandong Qiyao")	**1,352**	1,426
Chengdu City Green State	**11,979**	12,633
Dongyang Grand Energy Co., Ltd. ("Dongyang Grand")	**5,461**	–
	43,028	48,313

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill *(Continued)*

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of HK$239,703,000 (2017: HK$244,105,000) as at 31 December 2018 in relation to goodwill arising on acquisition of the subsidiaries.

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Water supply and sewage treatment

The recoverable amount of the CGUs under the water supply and sewage treatment operation is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2% (2017: 2% – 4%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 12.7% – 14.3% (2017: 13.7% – 14.5%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

The recoverable amount of the CGUs, excluding the CGU of Blue Mountain which the disposal was completed after the year end (note 24(ii)), at 31 December 2018 was HK$173,400,000 (RMB152,306,000) (2017: HK$206,768,000 (RMB172,207,000)).

Collection and utilization of landfill gas

The recoverable amount of the CGUs under the collection and utilization of landfill gas is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 0% – 3% (2017: 2% – 3%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 14% – 23.6% (2017: 16.8% – 19.2%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

During the year ended 31 December 2018, in light of the operating loss of Nanjing Feng Shang, an impairment loss was made on goodwill of HK$8,587,000 (RMB7,542,000). The recoverable amount of this CGU at 31 December 2018 was HK$16,861,000 (RMB14,810,000).

During the year ended 31 December 2017, in light of the operating loss of Chenzhou Environmental, an impairment loss was made on goodwill of HK$3,824,000 (RMB3,315,000). The recoverable amount of this CGU at 31 December 2017 was HK$28,680,000 (RMB23,886,000).

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

	2018	2017
	HK$'000	*HK$'000*
Listed equity securities, at fair value	**138,598**	59,177
Classified as:		
Financial assets at fair value through profit or loss		
– Current	**84,015**	40,576
Financial assets at fair value through other comprehensive income		
– Non-current	**54,583**	–
Available-for-sale investments		
– Non-current	**–**	18,601
	138,598	59,177

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

As at 31 December 2017, the Group's available-for-sale investments were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments of HK$1,774,000 were recognised in profit or loss in accordance with the policy set out in note 3(o)(i).

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For the year ended 31 December 2018

23. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the principal subsidiaries of the Group as at 31 December 2018. The class of shares held is ordinary, unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Billion City Investments Limited	British Virgin Islands ("BVI")/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Onfar International Limited ("Onfar")	BVI/Hong Kong	US$100	–	100%	Investment holding	Private limited liability company
Yichun Water Industry Co., Limited* ("Yichun Water")	PRC	RMB45,500,000	–	51%	Provision of water supply and installation of water supply facilities	Chinese foreign equity joint venture
Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke")	PRC	RMB95,000,000	–	54.33%	Sewage treatment	Domestic enterprise
Yichun City Water Supply Engineering Limited*	PRC	RMB5,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yichun Kun Lun Information Technology Company Limited* ("Yichun Kun Lun")	PRC	RMB2,000,000	–	100%	Information services	Domestic enterprise
Jiangxi Dekang Purified Water Company Limited*	PRC	RMB2,750,000	–	100%	Exploitation, production and sale of purified and drinking system	Domestic enterprise
Jiangxi Dekang Environmental Testing and Development Limited*	PRC	RMB1,000,000	–	100%	Environmental testing and product testing	Domestic enterprise
Nourish Gain Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
China Ace Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company

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For the year ended 31 December 2018

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan")	PRC	RMB40,000,000	–	70%	Sewage treatment	Chinese foreign equity joint venture
Swan (Huizhou) Investment Company Limited	PRC	US$33,568,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Swan (Huizhou) Creative Technology Company Limited*	PRC	RMB175,000,000	–	100%	Renewable energy technology development	Domestic enterprise
Huizhou Swan Heng Chang Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
Huizhou Swan Dadi Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	Chinese foreign equity joint venture
Shenzhen Haisheng Environmental Sci-Tech Company Limited*	PRC	RMB15,802,000	–	100%	Installation of water suppliers facilities	Wholly-owned foreign enterprise
Shenzhen Shi Guang Company Limited*	PRC	RMB1,000,000	–	100%	Trading company	Domestic enterprise
Shi Guang Limited	Hong Kong	HK$10,000	–	100%	Trading company	Private limited liability company
Yingtan Water Supply Group Co., Ltd* (Yingtan Water Supply)	PRC	RMB66,008,000	–	51%	Provision of water supply	Chinese foreign equity joint venture

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Jiangxi Shunda Construction Engineering Limited*	PRC	RMB20,500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	RMB500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Zhongkuang Construction Group Co. Ltd.* (Formerly known as Jiangxi Hualei Construction Co., Limited)	PRC	RMB100,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xiang Rui Property Limited* ("Yingtan Xiang Rui")	PRC	RMB20,000,000	–	100%	Property development	Domestic enterprise
Yingtan City Plumbing and Drainage Investigation and Design Company Limited*	PRC	RMB500,000	–	100%	Design of water pipeline network	Domestic enterprise
Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang")	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Renewable Resources Investment Company Limited* ("New China Water (Nanjing)")	PRC	US$82,880,000	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise
Changsha New China Water Environmental Technology Limited* (Formerly known as Changsha Huiming Recycling Resources Technology Limited)	PRC	RMB50,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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For the year ended 31 December 2018

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai")	PRC	RMB50,000,000	–	88%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City New China Water Environmental Technology Limited* ("Shenzhen New China Water")	PRC	RMB80,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Qingyuan City Greenspring Environmental Technology Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Huiming Environmental Technology Limited* ("Hunan Technology")	PRC	RMB18,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Liuyang New China Water Environmental Technology Limited* (Formerly known as Hunan Feng Ming Energy Technology Limited)	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Wuzhou City China Water New Renewable Resources Company Limited* ("Wuzhou New China Water")	PRC	RMB15,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental")	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental")	PRC	RMB4,100,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Baoji City Electric Power Development Co., Ltd* ("Baoji")	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda")	PRC	RMB20,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda")	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Carbon Company Limited*	PRC	RMB45,800,000	–	100%	Property development	Domestic enterprise
New China Water (Nanjing) Energy Company Limited*	PRC	RMB53,000,000	–	100%	Property development	Domestic enterprise
New China Water (Hexian) Recycling Resources Technology Limited*	PRC	RMB14,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Yichun City New China Water Energy Technology Limited*	PRC	RMB9,300,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Shenzhen City New China Water Electric Power Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Ningbo Qiyao New Energy Company Limited* (Ningbo Qiyao") *(note 40(a)(ii))*	PRC	RMB8,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Xiangtan Environmental Electricity Generation Company Limited* ("Datang Huayin Xiangtan") *(note 40(a)(v))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Xinhua New China Water Environmental Technology Limited*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shandong Qiyao New Energy Company Limited* ("Shandong Qiyao") *(note 40(a)(iv))*	PRC	RMB7,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Anqiu City New China Water Environmental Technology Limited*	PRC	RMB12,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Jining City Haisheng Water Treatment Company Limited*	PRC	RMB5,000,000	–	100%	Sewage treatment	Domestic enterprise
Fengcheng City New China Water Energy Technology Limited*	PRC	RMB10,400,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") *(note 40(a)(ii))*	PRC	RMB47,000,000	–	49%	Exploitation, generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Zhangjiakou New China Water Energy Technology Limited*	PRC	RMB15,000,000	–	70%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hainan Danzhou New China Water Environmental Technology Limited*	PRC	RMB3,500,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hong Kong New China Water Renewable Resources Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Conquer Asia Development Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Happy Hour Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Mascot Industries Limited	Hong Kong	HK$2	–	100%	Investment holding	Private limited liability company
Smart Giant Group Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Blue Mountain Hong Kong Group Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Golden Trend International Capital Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Swift Surplus Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Mark Profit Group Holdings Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	HK$12,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin")	PRC	RMB10,000,000	–	70%	Sewage treatment	Domestic enterprise
Bonus Raider Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Bloom Profit Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Hong Kong Glass Resources Limited	Hong Kong	HK$100	–	100%	Glass Recycling	Private limited liability company
Hong Kong Glass Reborn Limited	Hong Kong	HK$5,000,000	–	70%	Glass Recycling	Private limited liability company
South Top Investment Limited	Hong Kong	HK$1	100%	–	Provision of administrative services	Private limited liability company
Neutral Crown Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
PT. CWI Energy Indonesia	Indonesia	IDR55,000,000,000	–	94%	Exploitation generation and sale of renewable energy	Private limited liability company

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Hainan Sanya New China Water Environmental Technology Limited*	PRC	RMB5,000,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Chenzhou New China Water Environmental Technology Limited*	PRC	RMB1,500,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Swan (Huizhou) Environmental Technology Company Limited*	PRC	RMB200,000,000	–	100%	Dormant	Domestic enterprise
Dongyang Grand Energy Co., Ltd.* *(note 40 (a)(i))*	PRC	RMB10,000,000	–	90%	Exploitation generation and sale of renewable energy	Domestic enterprise
Haicheng City New China Water Environmental Technology Limited*	PRC	RMB3,500,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Anlu City New China Water Environmental Technology Limited*	PRC	RMB10,000,000	–	90%	Exploitation generation and sale of renewable energy	Domestic enterprise
Laizhou City New China Water Environmental Technology Limited*	PRC	RMB26,000,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Huizhou Hung Tai Heng Chang Property Development Company Limited*	PRC	RMB300,000	–	51%	Dormant	Domestic enterprise
Guangzhou China Water Renewable Environmental Technology Limited*	PRC	RMB10,000,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise

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23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Shenzhen City Haide Medical Technology Co. Limited*	PRC	RMB2,000,000	–	100%	Dormant	Domestic enterprise
Jiangxi Deyin Industries Limited* *(note 40(b))*	PRC	RMB5,000,000	–	100%	Property development	Domestic enterprise
Yingtan City Hongzhu Trading Co. Limited*	PRC	RMB2,000,000	–	100%	Trading development	Domestic enterprise
Linyi Water Pipe Construction Co Limited*	PRC	RMB30,000,000	–	100%	Dormant	Domestic enterprise
Zhijiang Xinzhongshui Chufeng Environmental Protection Technology Co., Ltd.*	PRC	RMB10,204,100	–	51%	Dormant	Domestic enterprise

* The English names are for identification purpose only.

Notes:

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries has issued any debt securities subsisting at the end of 2018 and 2017 or at any time during the years ended 31 December 2018 and 2017.

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Yingtan Water Group		Yichun Water Group	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%
Current assets	**372,440**	421,191	**146,750**	183,967
Non-current assets	**366,827**	299,210	**266,078**	251,222
Current liabilities	**(183,830)**	(218,089)	**(109,848)**	(129,820)
Non-current liabilities	**(79,781)**	(79,530)	**(23,814)**	(26,071)
Net assets	**475,656**	422,782	**279,166**	279,298
Carrying amount of NCI	**233,071**	207,163	**136,791**	136,856
Revenue	**150,536**	166,986	**233,029**	183,503
Profit for the year	**60,279**	72,185	**37,086**	18,706
Total comprehensive income	**70,558**	43,676	**44,573**	10,861
Profit allocated to NCI	**29,537**	35,371	**18,172**	9,166
Dividend paid by the subsidiaries	**–**	–	**35,580**	–
Dividend paid to NCI	**–**	–	**18,090**	–
Cash flows generated from operating activities	**196,681**	45,766	**2,020**	42,088
Cash flows used in investing activities	**(76,466)**	(199,529)	**(29,747)**	(23,137)
Cash flows (used in)/generated from financing activities	**(34,958)**	5,007	**(56,575)**	3,877

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24. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	**6,133**	59,009

All the Company's associates are unlisted corporate entities whose quoted market price is not available. All of these associates are accounted for using the equity method in the consolidated financial statements.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Yu Jiang Hui Min Small-Sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司	PRC	Contributed capital	–	10%	Money lending business *(note i)*	Domestic enterprise
Jinan Hongquan Water Production Co., Limited* ("Jinan Hongquan") 濟南泓泉制水有限公司	PRC	Contributed capital	–	35%	Provision of water supply *(note ii)*	Domestic enterprise
Super Sino Investment Limited ("Super Sino")	Hong Kong	Paid-up capital	–	30%	Investment holding in companies engaged in provision for water supply, installation of water supply facilities and water testing *(note iii)*	Private limited liability company
Yingtan City Yuanda Construction Industry Co., Ltd* 鷹潭市遠大建築工業有限公司	PRC	Contributed capital	–	25%	Construction business	Domestic enterprise
Ziyang Oasis Xinzhong Water Environmental Protection Technology Co., Ltd.* 資陽市綠州新中水環保科技有限公司	PRC	Contributed capital	–	49%	Exploitation, generation and sale of renewable energy	Domestic enterprise

* The English names are for identification purpose only.

24. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(i) On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. During the years ended 31 December 2018 and 2017, the Group has the right to nominate two out of five of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group. Yu Jiang Hui Man enables the Group to have exposure in the money lending business through local expertise.

In June 2017, the shareholders of Yu Jiang Hui Min dissolved a voluntary deduction in share capital of RMB1,000,000. The Group's interest in Yu Jiang Hui Min was reduced proportionate to the existing share capital. Percentage of investments in Yu Jiang Hui Min remained unchanged and the reduction in share capital has been fully received.

(ii) Jinan Hongquan enables the Group to have exposure in provision of water supply in Jinan, the PRC. On 6 December 2018, Blue Mountain Hong Kong Group Limited ("Blue Mountain"), a wholly-owned subsidiary of the Group, and Jinan Water Group Co. Ltd. (the "Purchaser"), entered into a sale and purchase agreement whereby Blue Mountain agreed to sell its shareholding in Jinan Hongquan. The disposal was completed on 24 January 2019.

(iii) As of 31 December 2017, the Group has pledged 3 ordinary shares (or 30%) in the issued share capital of Super Sino (the "Share Pledge"). In 2018, the Share Pledge was released.

Aggregate information of associates that are not individually material:

	2018	2017
	HK$'000	*HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**6,133**	59,009
Aggregate amounts of the Group's share of those associates		
Profit/(loss) for the year	**2,689**	(3,955)
Other comprehensive loss	**(4,955)**	(8,570)
Total comprehensive loss	**(2,266)**	(12,525)

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25. INTERESTS IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Share of net assets	**11,721**	–

The Company's joint venture is an unlisted corporate entity whose quoted market price is not available. It is accounted for using the equity method in the consolidated financial statements.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd 宜春市明月山方科污水處理有限公司	PRC	Contributed capital	–	65%	Sewage treatment services	Domestic enterprise

Aggregate information of a joint venture that is not individually material:

	2018 HK$'000	2017 HK$'000
Aggregate carrying amount of individually immaterial joint venture in the consolidated financial statements	**11,721**	–
Aggregate amounts of the Group's share of the joint venture's:		
Loss for the year	**(124)**	–
Other comprehensive loss	**(479)**	–
Total comprehensive loss	**(603)**	–

26. INVENTORIES

	2018 HK$'000	2017 HK$'000
Properties held for sale	**102,619**	156,988
Properties under development	**42,807**	–
Raw materials	**40,321**	36,769
Work in progress	**1,821**	–
	187,568	193,757

The analysis of the amount of inventories recognised as an expense is as follows:

	2018 HK$'000	2017 HK$'000
Carrying amount of inventories sold	**160,717**	163,456

27. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018 HK$'000	1 January 2018 HK$'000
Contract assets		
Arising from performance under construction contracts	**15,490**	19,276

Notes:

(i) The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, amounts previously included as "Amounts due from customers for contract works" were reclassified to contract assets (note 3(q)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(a) Contract assets *(Continued)*

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits as part of its credit risk management policies. The Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

(b) Contract liabilities

	31 December 2018 *HK$'000*	1 January 2018 *HK$'000*
Contract liabilities		
Construction contracts		
Billings in advance of performance	**275,741**	235,778
Property developments		
Forward sales deposits and instalments received	**13,105**	2,320
Water supply services		
Deposits received	**20,525**	19,925
	309,371	258,023

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, amounts previously included as "Amounts due to customers for contract works" and "Receipt in advance under trade and other payables" were reclassified to contract liabilities (note 3(q)).

27. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(b) Contract liabilities *(Continued)*

The following table shows how much of the revenue recognised in the current period relates to carried-forward contract liabilities.

	Construction contracts *HK$'000*	Property developments *HK$'000*	Water supply services *HK$'000*	Total *HK$'000*
Revenue recognised that was included in the contract liabilities at the beginning of the year	**89,362**	**13,388**	**1,120**	**103,870**

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– *Construction contracts*

When the Group receives a deposit before the construction work commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

– *Sales of properties*

The Group typically receives deposits from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the consideration is typically paid when legal assignment is completed.

– *Water supply services*

The Group typically receives deposits from clients in respect of the Group's water supply operation. This deposit is recognised as a contract liability until it is utilised.

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28. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**189,870**	110,014
Less: Loss allowances	**(3,651)**	(3,848)
	186,219	106,166
Other receivables *(note a)*	**116,643**	381,045
Less: Loss allowances	**(7,886)**	(3,204)
	108,757	377,841
Loan receivables *(note b)*	**133,424**	139,327
Less: Loss allowances	**(56,279)**	(54,844)
	77,145	84,483
Deposits and prepayments *(note c)*	**256,000**	63,493
	628,121	631,983
Amounts due within one year included under current assets	**625,844**	631,983
Amounts due after one year included under non-current assets	**2,277**	–
	628,121	631,983

(a) Other receivables mainly included the following items:

(i) For the year ended 31 December 2017, other receivables mainly included a receivable from disposal of investments in unlisted investment funds, a refund of the trade deposit for purchase of goods and deposit paid for biding for infrastructure construction as below. The remaining balance represented amount receivables from miscellaneous debtors.

A receivable of HK$139.95 million from the disposal of investments in unlisted investment funds (classified as financial assets at fair value through profit or loss in 2017 and classified as available-for-sale investments in 2016).

Other receivables included a refund of the trade deposit for purchase of goods. A subsidiary of the Company entered into a sales contract with an independent third party to purchase the goods. However, the independent third parties failed to provide the goods on delivery date. According to the sales contract and agreed with the independent third party, it would refund the full amount of deposit paid with a compensation to the subsidiary. Total amount of HK$55.4 million (RMB46.1 million) was outstanding as at 31 December 2017. The subsidiary of the Company received the refund subsequent to the reporting period.

A subsidiary of the Company entered into a co-operation agreement with an independent third party to bid for an infrastructure construction. The deposit of HK$120.0 million (equivalent to RMB100.0 million) was paid. At the end of the reporting period, the subsidiary of the Company and the independent third party agreed to terminate the co-operation agreement, and the deposit was refunded in January 2018.

28. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Apart from the loans to Top Vision of HK$43.6 million and other borrowers of HK$11.2 million which were fully impaired, included in loan receivables as at 31 December 2018 were loan to four (2017: four) unrelated parties of HK$78.62 million (2017: HK$84.48 million), which bear fixed interest rate ranging from 4% to 15% per annum. These parties have no recent history of default.

(c) Deposits and prepayments were mainly prepayments and tender deposits paid to independent third parties for construction projects during the year 2018.

Trade receivables

The Group allows an average credit period of 0 day to 180 days to its customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 6.

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

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**143,374**	89,131
91 to 180 days	**23,181**	12,111
181 to 365 days	**11,166**	2,869
Over 1 year	**8,498**	2,055
	186,219	106,166

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**155,710**	101,242
Past due but not impaired		
Within 90 days	**20,829**	–
91 to 180 days	**5,453**	2,869
181 to 365 days	**3,137**	840
Over 1 year	**1,090**	1,215
	186,219	106,166

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28. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 3(o)).

29. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASHFLOW INFORMATION

(a) Cash held by financial institutions by the Group represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2017: 0% to 0.001%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

	2018	2017
	HK$'000	*HK$'000*
Cash held by financial institutions	**2,371**	353
Cash at bank and on hand	**403,045**	317,796
Overdraft held at financial institutions	**(55,550)**	(20,266)
Cash and cash equivalents in the consolidated cash flow statement	**349,866**	297,883

The overdrafts are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the financial institutions should be entitled, without notice to the Group, to close the account and/or dispose of any or all securities held for or on behalf of the Group to settle all outstanding amounts owing to financial institutions (note 22). Total amount of the securities HK$138,598,000 (2017: HK$58,295,000) was held by the financial institutions.

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

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29. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASHFLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank Borrowings HK$'000	Other loans HK$'000	Obligations under finance leases HK$'000	Amounts due to NCI HK$'000	Loans from associates HK$'000	Amounts due to associates HK$'000	Total HK$'000
At 1 January 2018	167,100	442,276	102,264	132	3,148	–	714,920
Changes from financing cash flows:							
Proceeds from new bank borrowings and other loans	9,488	179,543	–	–	–	–	189,031
Repayment of bank borrowings and other loans	(147,130)	(245,000)	–	–	–	–	(392,130)
Loans from third parties	–	200,546	–	–	–	–	200,546
Repayment of loans from third parties	–	(1,898)	–	–	–	–	(1,898)
Advances from non-controlling shareholders	–	–	–	569	–	–	569
Proceeds from obligations of finance leases	–	–	189,858	–	–	–	189,858
Repayment of finance leases	–	–	(73,695)	–	–	–	(73,695)
Advance from associates	–	–	–	–	–	2,156	2,156
Interest paid	(6,230)	(30,742)	(9,836)	–	–	–	(46,808)
Total changes from financing cash flows	(143,872)	102,449	106,327	569	–	2,156	67,629
Exchange adjustments	(8,039)	(4,405)	(9,958)	(6)	(163)	(86)	(22,657)
Other changes:							
Finance charges on obligation under finance leases	–	–	10,034	–	–	–	10,034
Interest expenses	6,230	44,724	–	–	–	–	50,954
Reclassified as liabilities held for sale	–	–	–	–	(2,985)	–	(2,985)
Acquisition through business combination	29,731	–	–	–	–	–	29,731
Acquisition through assets acquisition	62,127	–	–	–	–	–	62,127
Total other changes	98,088	44,724	10,034	–	(2,985)	–	149,861
At 31 December 2018	**113,277**	**585,044**	**208,667**	**695**	**–**	**2,070**	**909,753**

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29. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASHFLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank borrowings	Other loans	Obligations under finance leases	Amount due (from) /to NCI	Loans from associates	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	**122,974**	**360,212**	**30,764**	**32,808**	**2,927**	**549,685**
Changes from financing cash flows:						
Proceeds from new bank borrowings and other loans	74,280	3,832	–	–	–	78,112
Repayment of bank borrowings and other loans	(40,955)	–	–	–	–	(40,955)
Repayment to non-controlling shareholders	–	–	–	(32,676)	–	(32,676)
Proceeds from obligations of finance leases	–	–	92,697	–	–	92,697
Repayment of finance leases	–	–	(26,507)	–	–	(26,507)
Advance from associates	–	–	–	–	221	221
Proceed from issuance fixed coupon bonds	–	310,098	–	–	–	310,098
Repayment of fixed coupon bonds	–	(255,000)	–	–	–	(255,000)
Loan from unrelated parties	–	1,845	–	–	–	1,845
Interest paid	(5,624)	(28,596)	(3,159)	–	–	(37,379)
Total changes from financing cash flows	27,701	32,179	63,031	(32,676)	221	90,456
Exchange adjustments	10,801	5,891	4,859	–	–	21,551
Other changes:						
Finance charges on obligation under finance leases	–	–	3,610	–	–	3,610
Interest expenses	5,624	43,994	–	–	–	49,618
Total other changes	5,624	43,994	3,610	–	–	53,228
At 31 December 2017	**167,100**	**442,276**	**102,264**	**132**	**3,148**	**714,920**

30. ASSETS (LIABILITIES) CLASSIFIED AS HELD FOR SALE

(a) On 8 June 2018, Billion City Investments Limited ("Billion City"), a wholly-owned subsidiary of the Group, and Guangdong Water Group (H.K.) Limited ("Guangdong Water") (the "Purchaser"), entered into a sale and purchase agreement, whereby Billion City agreed to sell its 30% shareholding in Super Sino Investment Limited, at a consideration of HK$95.78 million (equivalent to RMB81.0 million).

Completion of the transaction could not take place during the year ended 31 December 2018 as certain conditions precedent have not been fulfilled and the Purchaser has requested for an extension of time for completion. Since the Group remains committed to dispose of the assets, the assets continue to be classified as held for sale as at 31 December 2018.

At 31 December 2018, the Group had received HK$46.11 million (equivalent to RMB40.50 million) as a deposit, representing 50% of the total consideration.

(b) On 6 December 2018, Blue Mountain Hong Kong Group Limited ("Blue Mountain"), a wholly-owned subsidiary of the Group, and Jinan Water Group Co., Ltd. (the "Purchaser"), entered into a sale and purchase agreement whereby Blue Mountain agreed to sell its 35% equity interest in Jinan Hongquan at a consideration of HK$80.0 million (equivalent to RMB70.77 million). At 31 December 2018 the Group had received HK$40.24 million (equivalent to RMB35.38 million) as a deposit, representing 50% of total consideration. The disposal was completed on 24 January 2019.

The assets attributable to the associates expected to be sold within twelve months from the end of the reporting period were classified as assets held to sale as at 31 December 2018. The carrying amount of the assets as at 31 December 2018, which has been presented separately in the consolidated statement of financial position, is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Interests in associates – assets held for sale	**51,597**	–
Interests in associates – liabilities held for sale	**(2,985)**	–
	48,612	–

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31. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**101,222**	85,704
Receipt in advance	**–**	43,242
Construction payables	**69,001**	23,756
Interest payables	**14,016**	13,104
Consideration payable	**–**	2,855
Forward sales deposits received	**–**	4,091
Other tax payables	**–**	9,459
Accrued expenses	**27,004**	20,040
Guarantee deposits from a subcontractor	**2,276**	–
Sewage treatment fees received on behalf of certain government authorities	**1,231**	6,793
Other payables	**82,615**	10,760
	297,365	219,804
Amounts due within one year included under current liabilities	**285,374**	219,804
Amounts due after one year included under non-current liabilities	**11,991**	–
	297,365	219,804

The ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**22,728**	24,510
31 to 90 days	**39,988**	22,736
91 to 180 days	**16,727**	6,187
181 to 365 days	**10,985**	24,415
Over 1 year	**10,794**	7,856
	101,222	85,704

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

32. BANK BORROWINGS

At 31 December 2018, the bank borrowings were repayable as follows:

	2018 HK$'000	2017 HK$'000
Within one year or on demand	**55,362**	70,833
More than one year but within two years	**35,856**	60,385
More than two years but within five years	**17,505**	35,882
Over than five years	**4,554**	–
	113,277	167,100
Less: Amount due within one year shown under current liabilities	**(55,362)**	(70,833)
Amount due from one year shown under non-current liabilities	**57,915**	96,267

	2018 HK$'000	2017 HK$'000
Secured	**113,277**	131,079
Unsecured	**–**	36,021
	113,277	167,100

The exposure of the Group's loans is as follows:

	2018 HK$'000	2017 HK$'000
Fixed-rate loans	**113,277**	167,100
Variable-rate loans	**–**	–
	113,277	167,100

The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

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32. BANK BORROWINGS *(Continued)*

At 31 December 2018, the Group has access to the following undrawn bank borrowing facilities:

	2018	2017
	HK$'000	*HK$'000*
Fixed-rate		
– expiring within one year	–	112,459

All of the bank loans, including amounts repayable on demand, are carried at amortised cost.

Of the total bank borrowings as at 31 December 2017 and 2018, approximately HK$31,144,000 (equivalent to RMB27,354,000) (2017: Nil) was secured by the Group's property, plant and equipment with total carrying amount of approximately HK$34,134,000 (2017: Nil).

Notes:

(i) Bank borrowings of approximately RMB8,000,000 (equivalent to HK$9,108,000) is secured by a contractual right to receive the revenue generated by Jining Haiyuen, a non-wholly owned subsidiary of the Company, and carries fixed interest rate at 4.568% per annum.

(ii) Bank borrowings of approximately RMB23,000,000 (equivalent to HK$26,186,000) is secured by corporate guarantees from the New China Water (Shenzhen), a wholly owned subsidiary of the Company, and non-controlling shareholders of a subsidiary, personal guarantees from management of a subsidiary, property, plant and equipment with total carrying amount of approximately HK$26,267,000 and a contractual right to receive revenue generated by Dongyang Grand carried fixed interest rate at 6.37% per annum.

(iii) On 12 December 2017, Gaoming Huaxin, a non-wholly owned subsidiary of the Company entered into an agreement with the bank to extend the bank borrowings of RMB9,900,000 (equivalent to HK$11,887,000) for three years. As at 31 December 2018, bank borrowings of approximately RMB7,200,000 (equivalent to HK$8,197,000) (2017: RMB9,900,000 (equivalent to HK$11,887,000)) is secured by a contractual right to receive the revenue generated by Gaoming Huaxin and carries at a new of interest rate 7.13% (2017: 5.94%) per annum.

(iv) Bank borrowings of approximately RMBNil (2017: RMB30,000,000 (equivalents to HK$36,021,000)) was unsecured and carried fixed interest rate at 5.22% (2017: 5.22%) per annum.

(v) Bank borrowings of approximately RMBNil (2017: RMB12,000,000 (equivalent to HK$14,408,000)) was secured by a corporate guarantee from the Company, secured by the Company's equity interests in Shenzhen Li Sai and Huiming Technology, and carried fixed interest rate of 6.30% (2017: 6.30%) per annum.

32. BANK BORROWINGS *(Continued)*

Notes: (Continued)

(vi) Bank borrowings of approximately RMBNil (2017: RMB5,000,000 (equivalent to HK$6,004,000)) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, and carried fixed interest rate at 4.75% (2017: 4.75%) per annum.

(vii) Bank borrowings of approximately RMB4,354,000 (equivalent to HK$4,958,000) (2017: RMB5,684,000 (equivalent to HK$6,825,000)) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, a personal guarantee from management of a subsidiary and property, plant and equipment with total carrying amount of approximately HK$7,867,000 (2017: Nil) and carried fixed interest rate at 7.5% (2017: 4.75%) per annum.

(viii) Bank borrowings of approximately RMB2,000,000 (equivalents to HK$2,277,000) (2017: RMB13,900,000 (equivalents to HK$16,690,000)) carries fixed interest rate at 5.7% (2017: 5.7%) per annum.

Bank borrowings of approximately RMB28,820,000 (equivalents to HK$32,812,000) (2017: RMB33,489,000 (equivalents to HK$40,210,000)) carries fixed interest rate at 4.32% (2017: 4.32%) per annum.

These borrowings are secured by an wholly owned subsidiary of the Company's equity interest in Chenzhou Environmental, Heng Yang Environmental, Chengdu City Green State and Baoji.

(ix) Bank borrowings of approximately RMB26,122,000 (equivalents to HK$29,740,000) (2017: RMB29,195,000 (equivalents to HK$35,055,000)) is secured by an wholly owned subsidiary of the Company's equity interest in Hainan Camda and Chongqing Camda. It carries fixed interest rate at 4.75% (2017: 4.75%) per annum.

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33. OTHER LOANS

	2018 HK$'000	2017 HK$'000
Other loans comprise of:		
Government loans *(note i)*	**80,217**	84,591
Loans from unrelated parties *(note ii)*	**200,918**	1,920
Fixed coupon bonds *(note iii)*	**303,909**	355,765
	585,044	442,276
Analysed as:		
Secured	**–**	–
Unsecured	**585,044**	442,276
	585,044	442,276

At 31 December 2018, the other loans were repayable as follows:

	2018 HK$'000	2017 HK$'000
Overdue	**6,831**	7,204
On demand or within one year	**33,488**	246,382
More than one year but within two years	**116,938**	–
More than two years but within five years	**151,738**	114,850
More than five years	**276,049**	73,840
	585,044	442,276
Less: Amount due within one year shown under current liabilities	**(40,319)**	(253,586)
Amount due from one year shown under non-current liabilities	**544,725**	188,690

33. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2018, government loans of approximately HK$7,866,000 (2017: HK$8,296,000), HK$10,247,000 (2017: HK$10,806,000) and HK$62,104,000 (2017: HK$65,489,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 4.4% to 5.0% (2017: 4.4% to 5.0%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum (2017: 0.3% per annum).

As at 31 December 2018, government loans of HK$6,831,000 was due for repayment on or before 31 December 2018 (2017: HK$7,204,000 which was due for repayment on or before 31 December 2017), HK$3,363,000 (2017: HK$3,547,000) are repayable on demand or within one year to seven years (2017: one year to eight years), and the remaining balances are repayable within thirteen years (2017: thirteen years) after completion of the relevant assets.

(ii) At 31 December 2017, loans from employees of approximately HK$1,920,000 (equivalent to RMB1,600,000) are fixed-rate borrowings carrying interest at 12% per annum and due for repayment on or before 5 January 2018 and fully settled in January 2018.

(iii) (a) On 14 June 2016, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$300 million, were issued on 14 June 2016 and 7 December 2016, respectively. These other loans will mature in one year from the date of issuance.

Series A Bond and Series B Bond have matured and fully settled in 2017 and 2018 respectively.

(b) On 5 September 2017, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$200 million, were issued on 5 September 2017 and 19 September 2017, respectively. These other loans will mature in one year from the date of issuance.

Series A Bond and Series B Bond matured and fully settled in 2018.

(c) Bonds I

On 25 October 2017, the Company entered into the placing agreement with the placing agent, for the purposed of arranging independent places to subscribe for the bonds up to an aggregate principal amount of HK$100,000,000 within the placing period. The Company had completed the issuance of the bonds on 13 December 2017. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

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33. OTHER LOANS *(Continued)*

Notes: (Continued)

(d) Bonds II

On 4 December 2017, the Company entered into the placing agreement with the placing agent, for the purposed of arranging independent places to subscribe for the bonds in aggregate principal amount of not less than HK$100,000,000 within the placing periods, which was originally ended on 31 May 2018. After signed several extension agreements with the relevant parties on 31 May 2018 and 30 November 2018, the expiry date of the placing was further extended to 30 May 2019. As at 31 December 2018, HK$172,100,000 of bonds were issued. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

(e) Bond III

On 11 January 2018, the Company entered into the placing agreement with placing agent, for the purposed of arranging independent places to subscribe for the bonds up to aggregate principal amount of HK$100,000,000 within the placing period. Bond III with the aggregate principal amount of HK$14,000,000 were issued during the year ended 31 December 2018. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable annually in arrears.

Subsequent to the end of the reporting period, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days. The placing of Bond III has not been completed.

(f) Bond IV

On 18 January 2018, the Company entered into the placing agreement with placing agent, for the purposed of arranging independent places to subscribe for the bonds up to aggregate principal amount of HK$100,000,000 within the placing period. Bond IV with the aggregate principal amount of HK$20,000,000 were issued during the year ended 31 December 2018. The bonds will mature in 7.5 years from the date of issuance. The interest rate is 6% per annum, and payable annually in arrears.

Subsequent to the end of the reporting period, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days. The placing of Bond IV has not been completed.

(g) Bond V

On 24 August 2018, the Company entered into the placing agreement with placing agent, for the purposed of arranging independent places to subscribe for the bonds in aggregate principal amount of not less than HK$100,000,000 within the placing period. Bond V with the aggregate principal amount of HK$20,100,000 were issued during the year ended 31 December 2018. The bonds will mature in 1 year from the date of issuance. The interest rate is 5% per annum, and payable annually in arrears.

34. OBLIGATIONS UNDER FINANCE LEASES

	2018		2017	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	**91,500**	**103,761**	45,667	51,973
After 1 year but within 2 years	**70,814**	**77,269**	43,785	47,076
After 2 years but within 5 years	**45,852**	**49,734**	12,812	13,478
After 5 years	**501**	**518**	–	–
	117,167	**127,521**	56,597	60,554
	208,667	**231,282**	102,264	112,527
Less: total future interest expenses		**(22,615)**		(10,263)
Present value of lease obligations		**208,667**		102,264

As at 31 December 2017 and 2018 the Group entered into financing arrangements for purchase machineries with independent third-party leasing companies, in the form of sale and leaseback transactions which result in finance leases and the Group bears repurchase options. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods and the Group is certain that it will exercise the repurchase options, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using effective interest method in accordance with the accounting policy set out in Note 3(ad).

The finance lease of approximately HK$180.08 million (equivalent to RMB158.17 million) (2017: HK$10.19 million (equivalent to RMB8.49 million)) is secured by a contractual right to receive the revenue generated by certain subsidiaries of the Company.

35. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES AND ASSOCIATES

The amounts were unsecured, interest-free and repayable on demand.

36. LOANS FROM ASSOCIATES

As at 31 December 2017, a loan of HK$3,148,000 from an associate was unsecured, carried interest at 4.35% per annum and was repayable on demand.

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37. CAPITAL AND RESERVES

(a) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share Capital *HK$'000*	Share premium *HK$'000*	Investment revaluation reserve *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2017	798,270	954,318	8,893	–	(576,629)	1,184,852
Changes in equity for 2017:						
Loss for the year	–	–	–	–	(119,839)	(119,839)
Other comprehensive income for the year:						
Fair value loss on available-for-sale investments	–	–	(1,368)	–	–	(1,368)
Reclassification on impairment of available-for-sale investments	–	–	1,774	–	–	1,774
Reclassification adjustments relating to available-for-sale investments disposed of during the year	–	–	(8,894)	–	–	(8,894)
Total comprehensive loss for the year	–	–	(8,488)	–	(119,839)	(128,327)
At 31 December 2017	**798,270**	**954,318**	**405**	**–**	**(696,468)**	**1,056,525**
At 1 January 2018	**798,270**	**954,318**	**405**	**–**	**(696,468)**	**1,056,525**
Impact on initial application of HKFRS 9	**–**	**–**	**(405)**	**405**	**–**	**–**
Adjusted balance at 1 January 2018	**798,270**	**954,318**	**–**	**405**	**(696,468)**	**1,056,525**
Changes in equity for 2018:						
Loss for the year	**–**	**–**	**–**	**–**	**(103,465)**	**(103,465)**
Fair value loss on financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**(10,508)**	**–**	**(10,508)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(10,508)**	**(103,465)**	**(113,973)**
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	**–**	**–**	**–**	**(907)**	**907**	**–**
At 31 December 2018	**798,270**	**954,318**	**–**	**(11,010)**	**(799,026)**	**942,552**

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For the year ended 31 December 2018

37. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2018		2017	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each				
At 1 January and 31 December *(note i)*	**4,000,000**	**2,000,000**	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At 1 January and 31 December *(note ii)*	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,596,540**	**798,270**	1,596,540	798,270
At 31 December	**1,596,540**	**798,270**	1,596,540	798,270

Notes:

(i) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Convertible preference shares do not carry the right to vote and not be entitled to any dividend payment or any distribution of the Company. No right for return of capital in liquidation is available for distribution among the holders of Convertible Preference Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

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

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(ab).

(iii) Reserve fund

Reserve fund arises from (i) Pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 3(n).

(v) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 3(i).

(vi) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (note 3(n)).

38. GOVERNMENT GRANTS

	2018 HK$'000	2017 HK$'000
At 1 January	**34,803**	29,550
Acquired through business combination	**–**	1,642
Additions	**5,525**	13,204
Recognised as other income for the year	**(7,900)**	(11,978)
Exchange realignment	**(1,707)**	2,385
At 31 December, classified as non-current liabilities	**30,721**	34,803

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network and water plant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred government grants of approximately HK$7,900,000 (2017: HK$11,978,000) was amortised and recognised in the consolidated statement of profit or loss.

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39. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits	Service concession arrangements	Exclusive rights	Revaluation on investment property/ resumption property	Property, plant and equipment transfer to Investment properties	Government grants	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	12,286	7,696	31,079	3,571	1,196	–	55,828
Charged/(credited) to profit or loss for the year	–	2,250	(7,443)	306	–	–	(4,887)
Arising from acquisition of subsidiaries *(note 40)*	–	–	15,144	–	–	(257)	14,887
Arising from revaluation on investment properties	–	–	–	–	439	–	439
Exchange realignment	928	581	1,774	269	90	(43)	3,599
At 31 December 2017 and 1 January 2018	**13,214**	**10,527**	**40,554**	**4,146**	**1,725**	**(300)**	**69,866**
(Credited)/charged to profit or loss for the year	**–**	**(583)**	**(4,216)**	**1,767**	**–**	**–**	**(3,032)**
Arising from acquisition of a subsidiary *(note 40)*	**–**	**–**	**3,286**	**–**	**–**	**–**	**3,286**
Arising from revaluation on investment properties	**–**	**–**	**–**	**–**	**2,779**	**–**	**2,779**
Exchange realignment	**–**	**261**	**(1,852)**	**(116)**	**(361)**	**–**	**(2,068)**
At 31 December 2018	**13,214**	**10,205**	**37,772**	**5,797**	**4,143**	**(300)**	**70,831**

39. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

Reconciliation to the consolidated statements of financial position

	2018	2017
	HK$'000	*HK$'000*
Deferred tax assets	**(9,173)**	(10,208)
Deferred tax liabilities	**80,004**	80,074
	70,831	69,866

At 31 December 2018, the Group had unused tax losses of HK$140,255,000 (2017: HK$93,517,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. As at 31 December 2018, no tax losses can be carried forward indefinitely and tax losses of HK$140,255,000 (2017: HK$93,517,000) will expire in five years' time.

At 31 December 2018, the Group also has other deductible temporary differences of approximately HK$33,146,000 (2017: HK$38,576,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$297,344,000 (2017: HK$245,257,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES

(a) Business combination

The net assets acquired in the transaction and the goodwill arising are as follows:

2018

	(i) Dongyang Grand *HK$'000*
Property, plant and equipment	**32,602**
Intangible assets	**10,332**
Inventories	**293**
Trade and other receivables	**15,361**
Bank balances and cash	**30,608**
Trade and other payables	**(30,530)**
Bank borrowings	**(29,731)**
Deferred tax liabilities	**(3,286)**
Total identified net assets at fair value	**25,649**
Goodwill arising on acquisition of subsidiaries *(note 21)*	**5,942**
Non-controlling interests	**(3,159)**
Total consideration	**28,432**
Consideration paid in cash for the year ended 31 December 2018	**28,432**
Cash and cash equivalent balances acquired	**(30,608)**
Net cash inflow in the year ended 31 December 2018	**(2,176)**

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

2017

	(ii) Chengdu City Green State HK$'000	(iii) Ningbo Qiyao HK$'000	(iv) Shandong Qiyao HK$'000	(v) Datang Huayin Xiangtan HK$'000	Total HK$'000
Property, plant and equipment	14	14,062	7,533	4,052	25,661
Concession intangible assets	38,806	–	–	–	38,806
Intangible assets	97,583	1,073	3,470	3,073	105,199
Deferred tax assets	–	715	136	–	851
Inventories	–	16	160	–	176
Prepaid lease payments	–	–	328	–	328
Trade and other receivables	17,882	1,555	1,544	23	21,004
Bank balances and cash	24,185	3,397	889	97	28,568
Trade and other payables	(62,216)	(13,179)	(13,542)	(5,334)	(94,271)
Government grants	–	(1,028)	–	(614)	(1,642)
Deferred tax liabilities	(14,414)	–	–	(1,324)	(15,738)
Total identified net assets/ (liabilities)	101,840	6,611	518	(27)	108,942
Goodwill arising on acquisition of subsidiaries	11,840	76	1,343	1,126	14,385
Non-controlling interests	(57,977)	–	–	–	(57,977)
Total consideration	55,703	6,687	1,861	1,099	65,350
Consideration paid in cash for the year ended 31 December 2017	55,703	6,687	1,861	1,099	65,350
Cash and cash equivalent balances acquired	(24,185)	(3,397)	(889)	(97)	(28,568)
Net cash outflow in the year ended 31 December 2017	31,518	3,290	972	1,002	36,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(i) Dongyang Grand

On 22 November 2017, Shenzhen City New China Water entered into a sale and purchase agreement with an independent third party to acquire 90% equity interests of the Dongyang Grand (東陽弘翔新能源有限公司) for a consideration of RMB22.95 million (equivalent to approximately HK$28.43 million). The acquisition was completed on 16 March 2018, on the date the control in Dongyang Grand was passed to the Group, since then, the Group is interested in 90% equity interests of Dongyang Grand. Dongyang Grand is principally engaged in the operation of landfill gas power generation plant in Dongyang city, Zhejiang Province, the PRC, for an operation period of 7 years until June 2025.

	HK$'000
Total consideration paid	28,432
Consideration payable	–
	28,432

The goodwill is attributable to Dongyang Grand's strong position in the biogas power generation business in Dongyang City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$15,361,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2018, Dongyang Grand contributed revenue and profit of HK$10,627,000 and HK$3,500,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2018.

Had the business combination been effected on 1 January 2018, the revenue and profit of the Group for the year ended 31 December 2018 would have been HK$951,687,000 and HK$65,404,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(i) Dongyang Grand (Continued)

Net cash inflow arising on acquisition

	HK$'000
Consideration paid	(28,432)
Bank balances and cash acquired	30,608
	2,176

(ii) Chengdu City Green State

On 15 September 2015, New China Water (Nanjing) entered into sale and purchase agreements with four independent parties, to acquire in aggregate of 49% equity interests of Chengdu City Green State (成都市綠州新再生能源有限責任公司). The acquisition was completed on 13 March 2017, the consideration for the acquisition was RMB49.5 million (equivalent to approximately HK$55.71 million). As the Group is entitled to appoint five out of seven members of the board of directors of Chengdu City Green State, the Group is able to control the operating and financial policies over Chengdu City Green State and therefore classified as an indirect non-wholly-owned subsidiary. Details of this acquisition are set out in the Company's announcement dated 15 September 2015. Chengdu City Green State is principally engaged in solid waste detox treatment and landfill gas power generation in Changan landfill site, Sichuan Province, for an operation period of 10.5 years until December 2027.

	HK$'000
Total consideration paid	55,703
Consideration payable	–
	55,703

The goodwill is attributable to Chengdu City Green State's strong position in the biogas power generation business in Chengdu City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(ii) Chengdu City Green State (Continued)

The fair value of trade and other receivables at the date of acquisition of HK$17,882,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2017, Chengdu Green State contributed revenue and profit of HK$46,343,000 and HK$16,089,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$701,524,000 and HK$1,967,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	55,703
Bank balances and cash acquired	(24,185)
	31,518

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(iii) Ningbo Qiyao

On 15 December 2016, New China Water (Nanjing) and the independent third party entered into an acquisition agreement to acquire entire equity interests of Ningbo Qiyao (寧波齊耀新能源有限公司) for a consideration of RMB5.92 million (equivalent to approximately HK$6.69 million). The acquisition was completed on 14 February 2017, on the date the control in Ningbo Qiyao was passed to the Group, since then, the Group is interested in 100% equity interests of Ningbo Qiyao. Details of this acquisition are set out in the Company's announcement dated 15 December 2016. Ningbo Qiyao is principally engaged in the operation of landfill gas power generation plant in Ningbo Yinzhou landfill, Ningbo City, Zhejiang Province, for an operation period of 18 years until June 2028.

	HK$'000
Total consideration paid	6,687
Consideration payable	–
	6,687

The goodwill is attributable to Ningbo Qiyao's strong position in the biogas power generation business in Ningbo City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$1,555,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2017, Ningbo Qiyao contributed revenue and profit of HK$14,411,000 and HK$7,457,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$703,084,000 and HK$11,951,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

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For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(iii) Ningbo Qiyao (Continued)

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	6,687
Bank balances and cash acquired	(3,397)
	3,290

(iv) Shandong Qiyao

On 30 December 2016, New China Water (Nanjing) and an independent third party entered into an agreement to acquire entire equity interests of Shandong Qiyao (山東齊耀新能源有限公司) for a consideration of RMB1.65 million (equivalent to approximately HK$1.87 million). The acquisition was completed on 16 May 2017, on the date the control in Shandong Qiyao was passed to the Group, since then, the Group is interested in 100% equity interests of Shandong Qiyao. Details of this acquisition are set out in the Company's announcement dated 3 January 2017. Shandong Qiyao is principally engaged in operation of landfill gas power generation plant in Shandong Laiwu landfill, Laiwu City, Shandong Province, for an operation period of 20 years until November 2029.

	HK$'000
Total consideration paid	1,861
Consideration payable	–
	1,861

The goodwill is attributable to Shandong Qiyao's strong position in the biogas power generation business in Laiwu City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$1,544,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(iv) Shandong Qiyao (Continued)

From the date of acquisition to 31 December 2017, Shandong Qiyao contributed revenue and profit of HK$5,760,000 and HK$3,004,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$702,791,000 and HK$10,676,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	1,861
Bank balances and cash acquired	(889)
	972

(v) Datang Huayin Xiangtan

On 23 January 2017, Shenzhen City New China Water entered into acquisition agreements with two independent third parties, to acquire in aggregate of 100% equity interests of Datang Huayin Xiangtan (大唐華銀湘潭環保發電有限責任公司) for a consideration of RMB0.97 million (equivalent to approximately HK$1.10 million). The acquisition was completed on 24 February 2017, on the date the control in Datang Huayin Xiangtan was passed to the Group, since then, the Group is interested in 100% equity interests of Datang Huayin Xiangtan. Details of this acquisition are set out in the Company's announcement dated 23 January 2017. Datang Huayin Xiangtan is principally engaged in solid waste detox treatment and landfill gas power generation in Xiangtan Yuetang landfill, Xiangtan City, Hunan Province, for an operation period of 15 years until March 2024.

	HK$'000
Total consideration paid	1,099
Consideration payable	–
	1,099

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40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(v) Datang Huayin Xiangtan (Continued)

The goodwill is attributable to Datang Huayin Xiangtan's strong position in the biogas power generation business in Xiangtan City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of HK$23,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2017, Datang Huayin Xiangtan contributed revenue and profit of HK$2,916,000 and HK$1,391,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2017.

Had the business combination been effected on 1 January 2017, the revenue and profit of the Group for the year ended 31 December 2017 would have been HK$701,524,000 and HK$10,819,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	1,099
Bank balances and cash acquired	(97)
	1,002

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Asset acquisition

On 21 July 2018, Yingtan Water Supply entered into an agreement ("the Agreement") with an independent third party to acquire the entire equity interest in Jiangxi Deyin Industries Limited ("Jiangxi Deyin") (江西德銀實業有限公司), at an aggregate consideration of approximately HK$62,127,000 satisfied by assumption of interest-bearing bank borrowings and a cash consideration of approximately HK$115,000. Jiangxi Deyin is engaged in property development by holding two parcels of land situated in China. As the Jiangxi Deyin had not carried out any significant business activities except for holding two parcels of land, the acquisition was accounted for by the Group as an asset acquisition in 2018.

The net assets acquired by the Group in the above transaction are as follows:

	2018 *HK$'000*
Net assets and liabilities acquired:	
Prepaid lease payments *(Note 17)*	**62,552**
Other payables	**(310)**
	62,242
Interest-bearing bank borrowings	**(62,127)**
Cash consideration	**(115)**
	(62,242)

An analysis of the net cash outflow of cash and cash equivalents in respect of the asset acquisition is as follows:

	HK$'000
Net outflow of cash and cash equivalents included in cash flows from investing activities	(115)

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41. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for:		
– Acquisition of concession intangible assets, property, plant and equipment *(note)*	**337,929**	155,711
– Investment in an associate	**2,220**	–
	340,149	155,711

Note: At 31 December 2018, the amount represented capital commitment contracted but not provided for acquisition of plant and equipment, concession intangible assets and investment in associate of HK$337,929,000 (2017: HK$155,711,000) and HK$2,220,000 (2017: HK$Nil), respectively.

42. OPERATING LEASES

The Group as lessee

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are typically run for an initial period of three months to fifteen years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

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

	2018 HK$'000	2017 HK$'000
Within one year	**9,552**	5,903
After one year but within five years	**11,252**	5,854
After five years	**998**	97
	21,802	11,854

42. OPERATING LEASES *(Continued)*

The Group as lessor

Property rental income earned during the year was approximately HK$4,561,000 (2017: HK$2,116,000) (note 9).

As at 31 December 2018, the properties were expected to generate rental yields of 5%-8% per annum (2017: 7% – 9% per annum) on an ongoing basis. The properties had committed tenants for eighteen years and none of the leases includes contingent rentals.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**3,177**	2,928
After one year but within five years	**11,584**	9,615
After five years	**11,796**	12,491
	26,557	25,034

43. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

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For the year ended 31 December 2018

43. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

The 2011 Scheme (Continued)

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

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 December 2018 and 2017, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

44. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme. Effective from 1 June 2014, the cap of monthly relevant income was $30,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the Central Pension Scheme ("CPS") CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPS.

The total cost charged to the consolidated statement of profit or loss of approximately HK$16,950,000 (2017: HK$15,767,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

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45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Financial assets at fair value through other comprehensive income		**54,583**	–
Investment in subsidiaries		**2**	2
Available-for-sale investments		**–**	18,601
		54,585	18,603
Current assets			
Financial assets at fair value through profit or loss		**84,015**	40,576
Other receivables		**1,924**	140,415
Deposits and prepayment		**77,611**	–
Amounts due from subsidiaries		**1,264,144**	1,229,501
Cash held by financial institutions		**63**	323
Bank balances and cash		**29,209**	5,722
		1,456,966	1,416,537
Current liabilities			
Other payables		**8,622**	2,584
Other loans		**30,125**	240,914
Overdraft		**55,550**	20,266
		94,297	263,764
Net current assets		**1,362,669**	1,152,773
Total assets less current liabilities		**1,417,254**	1,171,376
Capital and reserves			
Share capital	*37*	**798,270**	798,270
Reserves	*37*	**144,282**	258,255
Total equity		**942,552**	1,056,525
Non-current liabilities			
Other loans		**474,702**	114,851
		1,417,254	1,171,376

Approved and authorised for issue by the board of directors on 28 March 2019:

Lin Yue Hui
Director

Liu Feng
Director

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46. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The emoluments paid or payable to each of the 9 (2017: 9) directors and chief executive were as follows:

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2018 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Liu Feng	–	1,217	1,526	18	2,761
Lin Yue Hui	–	1,318	1,772	18	3,108
Chu Yin Yin, Georgiana	–	1,170	1,525	18	2,713
Deng Xiao Ting	–	1,192	1,525	18	2,735
Deng Jun Jie (Resigned on 4 September 2018)	–	87	4,614	5	4,706
Zhong Wei Guang (Appointed on 4 September 2018)	–	200	195	3	398
	–	5,184	11,157	80	16,421
Independent Non-Executive Directors					
Guo Chao Tian	156	–	–	–	156
Wong Siu Keung, Joe	156	–	–	–	156
Qiu Na	156	–	–	–	156
	468	–	–	–	468
	468	5,184	11,157	80	16,889

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For the year ended 31 December 2018

46. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2017 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Wang De Yin					
(Resigned on 21 April 2017)	–	1,845	–	16	1,861
Liu Feng	–	1,080	–	48	1,128
Lin Yue Hui	–	1,160	–	18	1,178
Chu Yin Yin, Georgiana	–	1,080	–	18	1,098
Deng Xiao Ting	–	1,200	–	39	1,239
Deng Jun Jie					
(Appointed on 21 April 2017)	–	83	–	4	87
	–	6,448	–	143	6,591
Independent Non-Executive Directors					
Guo Chao Tian	–	144	–	–	144
Wong Siu Keung, Joe	–	144	–	–	144
Qiu Na	–	144	–	–	144
	–	432	–	–	432
	–	6,880	–	143	7,023

There was no arrangement under which directors and chief executive have waived or agreed to waive any emoluments during the two years ended 31 December 2018 and 2017.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. LITIGATIONS AND ARBITRATION

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

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

47. LITIGATIONS AND ARBITRATION *(Continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. LITIGATIONS AND ARBITRATION *(Continued)*

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

On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. ("Tai Heng") without payment of purchase consideration of RMB1 million. In light of this, Liquidators have through their solicitors issued a protected writ in the High Count against Tai Heng for recovery of a debt in the sum around HK$3.90 million plus interest and costs. Up to the publication date of this report, no substantial assets have yet been preserved or recovered. As at 31 December 2017 and 31 December 2018, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

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

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

* The English names are for identification purpose only.

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011.

47. LITIGATIONS AND ARBITRATION *(Continued)*

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

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "Kunming Court") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the date of approval of these financial statements, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "Guarantors") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "Settlement Agreement"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

* The English names are for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

48. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the balances detailed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

	2018	2017
	HK$'000	*HK$'000*
Directors of the Company:		
Deposits received	**5,157**	–

(b) **Compensation of key management personnel**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 46, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Short-term employee benefits	**21,931**	10,235
Post-employment benefits	**101**	164
	22,032	10,399

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

49. EVENT AFTER THE REPORTING PERIOD

(a) On 9 July 2018, New China Water (the "Intended Vendor") entered into the head of agreement with Kelin Environmental Protection Equipment, Inc., pursuant to which the Intended Vendor intends to sell the entire equity interests of 14 companies principally engaged in landfill gas comprehensive utilization projects to the Intended Purchaser in return for cash consideration. Details of the disposal have been set out in the Company's announcement dated 9 July 2018.

On 9 January 2019, the Intended Purchaser issued a written notice notifying the Intended Vendor that the Intended Purchaser has decided not to proceed with the transaction. The head of agreement shall be terminated automatically from the date of this written notice.

(b) On 28 February 2019, Yingtan Water Supply entered into the agreement with Yingtan Municipal Housing and Urban-Rural Development Bureau (the "Development Bureau") to will procure the construction of the water supply pipelines and its ancillary facilities for i) the section from the Huaqiao Reservoir Luotang River Water Distribution Plant to the intake of the Jiangnan Water Plant, and ii) the intake section of the Xiabu Water Plant and the renovation of the Guiye Water Intake Pumping Station (the "Water Intake Facilities") and Yingtan Water Supply shall acquire from the Development Bureau the Water Intake Facilities by installment payments in cash over eight years' time, commencing from the subsequent month after water connection. The cost of construction shall not exceed RMB420 million (equivalent to HK$491.4 million).

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For the year ended 31 December 2018

50. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

Except for the new and amendments to HKFRSs mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date if based on the information currently available to the group, and further impacts may be identified before the standard is initially applied in the group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

50. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16 Leases

As disclosed in note 3(ac), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 42, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$21,802,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

51. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.