TECHNOLOGIES UNIVERSAL

Universal Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1026

2018 Annual Report

Contents

Highlights of the Year

— Revenue for the year ended 31 December 2018 amounted to HK$271.91 million (2017: HK$248.54 million), representing an increase of HK$23.37 million or 9.4% as compared to last year. Such increase was mainly due to the increase in revenue of the Group's water supply business.

— Net loss attributable to shareholders of the Company for the year ended 31 December 2018 was HK$26.81 million (2017: net profit attributable to shareholders of the Company of HK$2.66 million), representing a decrease of HK$29.47 million as compared with the year ended 31 December 2017. The Group's loss for the year was mainly due to (i) the exchange loss on Renminbi for the year ended 31 December 2018, as compared to the exchange gain on Renminbi for the year ended 31 December 2017; and (ii) the increase in operating costs, staff costs and administrative expenses for the year ended 31 December 2018.

— Basic and diluted loss per share for the year ended 31 December 2018 amounted to 1.26 HK cents and 1.26 HK cents, respectively (Basic and diluted earnings per share for the year ended 31 December 2017: 0.13 HK cent and 0.13 HK cent, respectively).

— The Board of Directors does not recommend payment of any dividend for the year ended 31 December 2018 (2017: HK$Nil).

BOARD OF DIRECTORS

Executive Directors:

Chen Jinyang *(Chairman)*
Chau Cheuk Wah *(Chief Executive Officer)*
Zhou Jianhui (retired at the AGM on 29 June 2018)
Zhu Fenglian
Zhang Haimei (re-designated on 23 April 2018)

Non-Executive Director:

Xuan Zhensheng (appointed on 23 April 2018)

Independent Non-Executive Directors:

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

COMPANY SECRETARY

Tang Chi Wai

AUDIT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Chen Jinyang
Tang Chi Wai

AUDITOR

PKF Hong Kong Limited
Certified Public Accountants

WEBSITE

www.uth.com.hk

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKER

Dah Sing Bank

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Universal Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

REVIEW

In 2018, the Group recorded total revenue of HK$271.91 million, representing an increase of 9% as compared with the revenue of HK$248.54 million last year. The increase was mainly due to an increase in income from the water supply business in the PRC. However, due to the significant RMB exchange loss and increase in operation cost, staff cost and administration expenses, the Group recorded net loss of HK$26.81 million, representing a decrease of 1,108% as compared with a net profit of HK$2.66 million last year.

During the year under review, the international market was highly volatile as affected by the trade conflict between China and the United States leading to fears of rising international trade protectionism, anticipated interest rate hikes by the US Federal Reserve and changes in policies, etc. As a result of devaluation of RMB, the Group recorded a significant RMB exchange loss in the year. Nevertheless, admist all challenges brought by the macro economy, the Group strived to maintain stability of the business. An analysis of China's market environment shows that the population and economic activities were stabilised under the policies implemented by the government, there was an increasing rigid demand in water, and the Group's water supply volume in 2018 increased by 10,640,000 m^3, representing an increase of more than 8% as compared with last year. Our principal business was growing steadily. At the same time, the Group's investment properties continued to generate stable rental income.

PROSPECTS

In February 2019, the Group entered into an acquisition agreement to acquire a number of commercial properties at prime locations in Guangzhou, a first-tier city in China. Upon completion of the transaction, it is expected that the acquisition can generate stable rental income for the Group and strengthen its revenue base. The Group also proposed to raise fund by Rights Issue and Placing for settlement of the Consideration for the acquisition, while the remaining proceeds will be used for development of the Group's fund investment and management business in Hong Kong and China. In the new financial year, the Group will speed up the development pace of its financial business, in order to further enhance the competitiveness of the Group's business as a whole, and improve the quality of its earnings.

Looking ahead, it is expected that the international macro environment is still challenging. The Company will continuously strive to seek for strategic acquisition opportunities with growth potentials, and at the same time boost the business performance through organic growth. The Group places great emphasis on sustainable development, staff training, internal control, risk management and corporate governance. In creating value for shareholders, the Company is also fully committed to fulfilling its social responsibilities.

I would like to take this opportunity to express my gratitude to the Board, the senior management and our staff for their commitments and efforts, their spirit of teamwork and contribution to the Group. In future, we will continue to work hard to assure the stakeholders and the Group's steady development.

Chen Jinyang
Chairman

Hong Kong, 29 March 2019

Management Discussion and Analysis

FINANCIAL OVERVIEW

Revenue and loss for the year

During the current fiscal year, the Group recorded a revenue of HK$271,909,000, representing an increase by 9% or HK$23,373,000 as compared with the last fiscal year. Loss attributable to shareholders of the Company for the year ended 31 December 2018 was HK$26,805,000, representing a decrease in profit attributable to shareholders of the Company of HK$29,465,000 as compared to the last fiscal year. Increase in revenue was mainly attributable to the water supply business. The loss for the year was mainly attributable to: (a) the exchange loss on Renminbi for the year, as compared to the exchange gain on Renminbi for the year of 2017; and (b) the increase in operating costs, staff costs and administrative expenses for the year.

Cost of sales/services rendered

During the current fiscal year, the Group recorded a cost of sales/services rendered in the amount of HK$187,350,000, representing an increase of HK$31,433,000 as compared to the last fiscal year. The increase of cost of sales/services rendered was mainly attributable to the Group's water supply and related business.

Other income and gains

During the current fiscal year, the Group recorded other income and gains of HK$19,880,000, representing a decrease of 48% as compared with the last fiscal year. The decrease in other income and gains was mainly attributable to the decrease in exchange gain the current year under review.

General and administrative expenses

During the current fiscal year, the Group recorded general and administrative expenses of HK$75,596,000, representing an increase of 19% as compared with the last fiscal year. During the current fiscal year, general and administrative expenses increased in terms of staff costs, exchange loss and other expenses.

Finance costs

During the current fiscal year, the Group recorded finance costs of HK$28,239,000, representing an increase of 4% as compared with the last fiscal year. It was mainly due to the increase in interest rate on bank loans of the Group.

FINANCIAL OVERVIEW *(continued)*

Income tax expense

During the current fiscal year, the Group recorded an income tax expense of HK$10,621,000, representing a decrease of 31% as compared with the last fiscal year. It was mainly due to the decrease in profit of water supply business for the current year under review.

Property, plant and equipment

The Group's property, plant and equipment decreased by HK$10,661,000 from HK$503,874,000 as at 31 December 2017 to HK$493,213,000 as at 31 December 2018. The decrease was due to the depreciation for the current fiscal year.

Prepaid land lease premium

The Group's prepaid land lease premium decreased by HK$1,963,000 from HK$31,226,000 as at 31 December 2017 to HK$29,263,000 as at 31 December 2018. The decrease was mainly due to the disposal of part of prepaid land lease premium during the current fiscal year.

Investment properties

The Group's investment properties decreased by HK$4,176,000 or 8% from HK$50,775,000 as at 31 December 2017 to HK$46,599,000 as at 31 December 2018. It was mainly attributable to the reclassification of certain investment properties to property, plant and equipment and prepaid land lease premium during the current fiscal year.

Intangible assets

The Group's intangible assets decreased by HK$57,641,000 from HK$411,342,000 as at 31 December 2017 to HK$353,701,000 as at 31 December 2018. The decrease was mainly due to the amortisation for the current fiscal year.

Inventories

The Group's inventories increased by HK$19,754,000 from HK$4,713,000 as at 31 December 2017 to HK$24,467,000 as at 31 December 2018. The increase was mainly due to the increase in purchase of material for water pipeline construction projects for water supply and related business and purchase of overseas freehold land for the current fiscal year.

FINANCIAL OVERVIEW *(continued)*

Debtors

The Group's debtors decreased by HK$2,110,000 or 8% from HK$26,305,000 as at 31 December 2017 to HK$24,195,000 as at 31 December 2018. The decrease in debtors was attributable to the shorter settlement period by customers of the Group's water supply and related business.

Deposits, prepayments and other receivables

The Group's deposits, prepayments and other receivables decreased by HK$2,989,000 from HK$10,702,000 as at 31 December 2017 to HK$7,713,000 as at 31 December 2018. The decrease was mainly attributable to decrease in interest receivables and utilities and other deposits for the current fiscal year.

Cash and bank balances and fixed deposits

The Group's cash and bank balances and fixed deposits decreased by HK$22,468,000 from HK$311,136,000 as at 31 December 2017 to HK$288,668,000 as at 31 December 2018. The decrease in cash and bank balances and fixed deposits was mainly due to the settlement of bank borrowing in current year. As at 31 December 2018, 91% (31 December 2017: 59%) of cash and bank balances was denominated in Renminbi.

Pledged time deposit

The Group's pledged time deposit decreased by HK$291,239,000 from HK$291,239,000 as at 31 December 2017 to HK$Nil as at 31 December 2018. The pledged time deposit was released upon the settlement of relevant bank borrowing for the current fiscal year.

Bank and other borrowings

The Group's bank and other borrowings decreased by HK$257,673,000 from HK$709,852,000 as at 31 December 2017 to HK$452,179,000 as at 31 December 2018. The decrease was mainly attributable to the settlement of bank borrowing for the current fiscal year.

Trade payables

The Group's trade payable decreased by HK$22,548,000 from HK$33,154,000 as at 31 December 2017 to HK$10,606,000 as at 31 December 2018. The decrease was mainly attributable to the settlement of water resources charges payable to the PRC government for the current fiscal year.

Payable to merchants

The Group's payable to merchants as at 31 December 2018 amounted to approximately HK$3,011,000, which is similar to the figure as at 31 December 2017.

FINANCIAL OVERVIEW *(continued)*

Deposits received, sundry creditors and accruals

The Group's deposits received, sundry creditors and accruals decreased by HK$47,173,000 from HK$177,245,000 as at 31 December 2017 to HK$130,072,000 as at 31 December 2018. The decrease was mainly attributable to the decrease in accruals and reclassification of contract liabilities from deposits received, sundry creditors and accruals, due to the adoption of HKFRS 15 during the year.

Contract liabilities

The Group's contract liabilities increased by HK$23,396,000 from HK$Nil as at 31 December 2017 to HK$23,396,000 as at 31 December 2018. The increase was mainly due to reclassification of contract liabilities from deposits received, sundry creditors and accruals, due to the adoption of HKFRS 15 during the year.

Amounts due to related companies

Amounts due to related companies decreased by HK$39,337,000 from HK$39,383,000 as at 31 December 2017 to HK$46,000 as at 31 December 2018. The amounts represent advances from related companies. The decrease was mainly attributable to the partial settlement to related companies on the advance. The advances are unsecured, interest-free and repayable on demand.

Events after the reporting period

(i) Proposed acquisition of Chevalier Earth Group Limited (the "Target Company")

On 15 February 2019, the Company entered into an agreement with Billion Eminence Investment Limited (the "**Vendor**"), pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase from the Vendor, the entire issued share capital of the Target Company and the corresponding shareholders' loans for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400), details of which were set out in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019.

(ii) Proposed rights issue (the "Rights Issue")

In relation to the proposed acquisition mentioned in note (i) above, the board of directors of the Company proposed to raise gross proceeds of up to approximately HK$975.41 million (before expenses) on the basis of two (2) rights shares for every one (1) share held on 24 April 2019 (or such other date as may be determined by the Company) by issuing up to 4,240,897,716 Rights Shares (assuming no further issue or repurchase of Shares on or before the Record Date) at the Subscription Price of HK$0.23 per Rights Share, details of which were set out in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019.

FINANCIAL OVERVIEW *(continued)*

Events after the reporting period *(continued)*

(iii) Proposed placing of new shares under specific mandate (the "Placing")

On 15 February 2019 (after trading hours), the Company and Celestial Capital Limited, Yue Xiu Securities Company Limited and Fulixin Securities Limited (collectively, the "**Placing Agents**") entered into the placing agreement, pursuant to which the Placing Agents conditionally agreed to effect the Placing by procuring no less than six placees to subscribe for such number of placing shares as is equivalent to the number of untaken Shares during the Rights Issue at the Placing Price of HK$0.23 per Share on a best effort basis, details of which were set out in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019.

As at the date of this annual report, the above transactions have not yet been completed.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had net current assets of HK$166,260,000. Current assets comprised inventories of HK$24,467,000, debtors of HK$24,195,000, deposits, prepayments and other receivables of HK$7,713,000, prepaid land lease premium of HK$557,000, fixed deposits of HK$122,135,000 and cash and bank balances of HK$166,533,000.

Current liabilities comprised bank and other borrowings of HK$6,687,000, trade payables of HK$10,606,000, payable to merchants of HK$3,011,000, deposits received, sundry creditors and accruals of HK$130,072,000, contract liabilities of HK$23,396,000, amounts due to related companies of HK$46,000 and tax payable of HK$5,522,000.

The gearing ratio, which is defined as a percentage of the total liabilities (excluding deferred tax liability) over the total assets (excluding deferred tax assets), of the Group as at 31 December 2018 was 45% (2017: 55%).

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

BUSINESS REVIEW AND PROSPECTS

Review

For the year ended 31 December 2018, the Group recorded net loss attributable to shareholders of the Company in the amount of approximately HK$26,805,000, representing a decrease of approximately HK$29,465,000 as compared to net profit attributable to shareholders of the Company in the amount of approximately HK$2,660,000 last year. The loss for the year of the Group was mainly attributable to: a) the exchange loss on Renminbi for the year ended 31 December 2018, as compared to the exchange gain on Renminbi for the year ended 31 December 2017; and b) the increase in operating costs, staff costs and administrative expenses for the year 2018.

During the year, the Group was principally engaged in the businesses of water supply and related services as well as property investment and development. Revenue from principal businesses amounted to approximately HK$271,909,000, representing an increase of 9% or approximately HK$23,373,000 as compared to approximately HK$248,536,000 last year. The volume of water supplied by the Group's water plant increased by 10,640,000 m^3, representing an increase of 8.7% as compared to last year. The water supply related business (including water pipe repairs and maintenance, water meter maintenance and replacement and other related services) recorded a revenue of HK$41,655,000, representing an increase of 28% as compared to last year, which was mainly attributable to the increased demand on water supply due to urban growth of the city.

During the year under review, the Group's property investment and development segment recorded revenue of approximately HK$2,640,000, representing an increase of 9% as compared to last year. The modest increase in rental income was resulted from higher rental level and higher leasehold occupancy rate during the current period under review. The Group's property development and investment segment contributes stable income and positive cash flow to the Group.

This year, the Group strove to improve its corporate culture, system efficiency, branding and human resources planning with the view to enhancing competitiveness and strengthening core competencies while maintaining a high degree of social responsibility. As part of the Group's environmental, social and governance initiatives, the Group provided training and equal opportunities to staff, with the view to developing talents, skills and sense of belonging within the Group. In addition, the Group is dedicated to high corporate governance and internal control standards, setting out key performance indicators to improve management effectiveness and efficiency.

PROSPECTS

The population and economy of Qingyuan City is expected to grow continuously with the implementation of the national policy of "Guangdong-Hong Kong-Macao Bay Area". We will continue to make efforts to improve our performance with the view to improving profitability of the water supply business.

The Group will also continue to explore suitable investment and diversification opportunities which may arise from time to time. As disclosed in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019, the Company entered into an acquisition agreement with the Vendor to acquire the Target Company and certain PRC commercial properties at the consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400). Simultaneously, the Company proposed to launch the Rights Issue and the Placing to finance the Consideration.

The Company always gives high priority to facility upgrade, staff training, risk management and efficiency improvement. Going forward, the Company will continue to identify strategies in line with its diversified development policies and to seek suitable investment opportunities to diversify its income stream. Meanwhile, the Company will also regularly review its business model and strategy to mitigate the impact of fluctuations during different stages of business cycle. All improvement efforts take time to show results, and the Company will continue to implement measures to lay a solid foundation for sustainable growth and long-term development.

EMPLOYEES

As at 31 December 2018, the total number of employees of the Group was 387 (2017: 366). The remuneration of the employees (including directors) were determined according to their performance and work experience. In addition to basic salaries, discretionary bonus and share options may be granted to eligible employee by reference to the Group's performance as well as the individual's performance. The Group also provides social security benefits to its staff such as Mandatory Provident Fund Scheme in Hong Kong and the central pension scheme in the PRC.

The Company would like to thank its staff for their continual dedication and contribution.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 15 February 2019, the Company (as purchaser), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the Sale Interests for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400). The purpose of the Acquisition is to acquire certain commercial-use properties in Guangzhou, China. Simultaneously, the Company launched the Rights Issue and the Placing to raise funding to finance the Acquisition. The Rights Issue and Placing have not yet completed as at the date of this annual report. If the Company does not manage to raise minimum gross proceeds of HK$710,000,000 under the Rights Issue and the Placing (the "**Minimum Proceeds Condition**"), it does not intend to proceed with the Completion of the Acquisition Agreement.

Ms. Zhu Fenglian, an executive Director, is also the owner of part of the properties acquired under the Acquisition. The Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The acquisition is subject to shareholders' approval and has not yet completed as at the date of this annual report.

Save as disclosed above, the Group did not have any other significant investments, acquisitions and disposals for the year ended 31 December 2018.

CHARGES ON GROUP'S ASSETS

The Group's bank loans at 31 December 2018 were secured by:

(i) charges over a land use right under service concession arrangement with a carrying amount of RMB4,022,000 (equivalent to approximately HK$4,579,000);

(ii) pledge of trade receivables with a carrying amount of RMB21,090,000 (equivalent to approximately HK$24,009,000);

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

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

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

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

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 15 February 2019, the Company (as purchaser), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the Sale Interests for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400). Simultaneously, the Company launched the Rights Issue and the Placing to finance the Consideration. If the Company does not manage to satisfy the Minimum Proceeds Condition through the raising of minimum gross proceeds of HK$710,000,000 through the Rights Issue and the Placing, it does not intend to proceed with the Completion of the Acquisition Agreement.

The Group intends to use the net proceeds of the Rights Issue and the Placing for the following sequence: (i) approximately HK$673.29 million for settlement of the Consideration; and (ii) the balance of between approximately HK$25.18 million (assuming that the Minimum Proceeds Condition is just achieved) and approximately HK$297.35 million (assuming full acceptance under the Rights Issue) for the development of fund investment and management businesses of the Group in Hong Kong and the PRC.

CURRENCY RISK

The Group's core businesses are mainly transacted and settled in Renminbi and the majority of assets and liabilities are denominated in Renminbi ("**RMB**") and Hong Kong dollar ("**HK$**"). There are no significant assets and liabilities denominated in other currencies. During the year ended 31 December 2018, the Group did not enter into any arrangements to hedge its foreign currency exposure. Any material fluctuation in the exchange rates of HK$ or RMB may have an impact on the operating results of the Group.

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

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had contracted but not provided for of approximately HK$104,671,000 (2017: HK$159,545,000) comprising (i) acquisition of property, plant and equipment of approximately HK$51,634,000 (2017: HK$71,799,000); and (ii) other intangible assets (as defined under the adopted accounting standards) of approximately HK$53,037,000 (2017: HK$87,746,000), both of which being in connection with for the expansion of water treatment capacity and pipeline network, as well as the maintenance capital expenditures in the normal course of business of Qingyuan Water Supply Development Company Limited and Qingyuan Qingxin District Taihe Water Company Limited.

CONTINGENT LIABILITIES

The Directors consider that the Group had no contingent liabilities as at 31 December 2018.

DIRECTORS

Executive Directors

Mr. Chen Jinyang

Mr. Chen, aged 48, was appointed as an Executive Director, the Chairman of the Board and an authorized representative of the Group on 18 December 2012,16 September 2013 and 29 October 2015 respectively. He has substantial experience and knowledge of banking industry and investment business in the PRC.

Mr. Chau Cheuk Wah

Mr. Chau, aged 64, was appointed as the Chief Executive Officer and an Executive Director of the Group on 3 June 2013 and 16 September 2013 respectively. Mr. Chau has 38 years of experience in banking and finance in HongKong and China with various global financial institutes. Mr. Chau was graduated from The Chinese University of Hong Kong with a bachelor degree in Business Administration.

Mr. Zhou Jianhui

Mr. Zhou, aged 54, was appointed as an Executive Director of the Group on 18 December 2012. Mr. Zhou retired as an Executive Director of the Group with effect from the conclusion of annual general meeting on 29 June 2018. Mr. Zhou was previously a senior advisor of the Company and joined the Group as a Vice President. Mr. Zhou has substantial experience and knowledge of financial management and investment business in the PRC.

DIRECTORS *(continued)*

Executive Directors *(continued)*

Ms. Zhu Fenglian

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

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

DIRECTORS *(continued)*

Executive Directors *(continued)*

Ms. Zhang Haimei

Ms. Zhang, aged 51, was appointed as a Non-Executive Director of the Group on 23 December 2015 and re-designated as an Executive Director of the Group on 23 April 2018. Ms. Zhang is experienced in financial management. Ms. Zhang obtained a diploma in accounting and possesses the qualification of junior level accounting in the PRC.

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

Non-Executive Director

Mr. Xuan Zhensheng

Mr. Xuan, aged 49, was appointed as Non-Executive Director of the Group on 23 April 2018. Mr. Xuan obtained a diploma in Economics Management in the PRC, and specialty in accountant qualifications issued by the Ministry of Personnel of PRC.

Mr. Xuan is currently a director of GD, a director and general manager of New Century (a company in which Ms. Zhu and her family own shareholding interest) and a supervisor of Dongguan Shi Yuhe Shiye Limited (a company in which Ms. Zhu and her family own shareholding interest). Mr. Xuan was previously (i) a director, the financial controller and the board secretary of Boxin; and (ii) the chairman of supervision committee of GD in which Ms. Zhu and her family own shareholding interest in GD through New Century.

DIRECTORS *(continued)*

Independent Non-Executive Directors

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

Dr. Cheung, aged 82, is an Independent Non-Executive Director, the Chairman of Remuneration Committee and a member of Audit Committee and Nomination Committee of the Company. He was awarded with Honorary Doctorate Degree in Business Administration by John Dewey University in the United States in 1984. He obtained a master degree in Business Administration and a Bachelor of Science degree in Accounts and Finance from New York University in the United States in 1962 and 1960, respectively. Dr. Cheung is a Director and Vice Chairman of Executive Committee of Metropolitan Bank(China) Ltd. He was formerly (i) an Independent Non-Executive Director and the Chairman of Audit Committee of Shanghai Electric Group Company Limited (stock code: 2727); (ii) an Independent Non-Executive Director, the Chairman and subsequently the Co-Chairman of the Board of Grand T G Gold Holdings Limited (stock code: 8299); (iii) an Independent Non-Executive Director of China Taifeng Beddings Holdings Limited (stock code: 873); (iv) an Independent Non-Executive Director and the Chairman of Nomination Committee and Audit Committee of China Financial International Investments Limited (stock code: 721); and (v) an Executive Director and the Chairman of the Board of Roma Group Limited (stock code: 8072). Dr. Cheung was also formerly Independent Non-Executive Director and the Director General of Audit Committee of China Resources Bank of Zhuhai Co. Ltd. Dr. Cheung is currently (i) an Independent Non-Executive Director and the member of Audit Committee, Remuneration Committee and Nomination Committee of Fullsun International Holdings Group Co., Limited (stock code: 627); (ii) an Independent Non-Executive Director and the Chairman of Audit Committee of Pioneer Global Group Limited (stock code: 224) and Modern Dental Group Limited (stock code: 3600); (iii) an Non-Executive Director of Galaxy Entertainment Group Limited (stock code: 027); and (iv) an independent Non-Executive Director and Chairman of Remuneration Committee of Jiayuan International Group Limited (stock code: 2768), all of which are companies listed on the Main Board of the Stock Exchange. Dr. Cheung is an Independent Non-Executive Director and the Chairman of Nomination Committee of Yin He Holdings Limited (formerly named "Zebra Strategic Holdings Limited") (stock code: 8260) listed on GEM of the Hong Kong Stock Exchange. He is also a Council Member of the Hong Kong Institute of Directors. He was a former visiting professor of School of Business of Nanjing University, China. He is a member of Hospital Governing Committee of both Kowloon Hospital and Hong Kong Eye Hospital and a member of Regional Advisory Committee of Hospital Authority. He was a former director and advisor of the Tung Wah Group of Hospitals. Dr. Cheung was formerly a Chief Executive & Executive Deputy Chairman of Mission Hills Group.

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

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. David Tsoi

Mr. Tsoi, aged 71, was appointed as an Independent Non-Executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company on 3 June 2013. Mr. Tsoi is the managing director of Alliott, Tsoi CPA Limited. Mr. Tsoi obtained a master's degree in business administration from the University of East Asia, Macau (currently known as University of Macau) in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong, the Institute of Chartered Accountants of England and Wales, the Society of Chinese Accountants and Auditors and the CPA Australia, respectively, and a member of Chartered Professional Accountants of British Columbia, Canada. He was formerly (i) an Independent Non-Executive Director of CRRC Corporation Limited (formerly known as CSR Corporation Limited) (stock code: 1766); (ii) an Independent Non-Executive Director, Chairman of Audit Committee, Nomination Committee and Corporate Governance Committee of Anxin-China Holdings Limited (stock code: 1149); (iii) an Independent Non-Executive Director and Chairman of Audit Committee of Enviro Energy International Holdings Limited (stock code: 1102); and (iv) an Independent Non-Executive Director, Chairman of Audit Committee and Remuneration Committee of Loto Interactive Limited (formerly named "MelcoLot Limited") (stock code: 8198). Mr. Tsoi is currently (i) an Independent Non-Executive Director, Chairman of Audit Committee and Remuneration Committee of Green International Holdings Limited (stock code: 2700); (ii) an Independent Non-Executive Director of Guru Online (Holdings) Limited (stock code: 8121); (iii) an Independent Non-Executive Director of Tianli Holdings Group Limited (stock code: 117); (iv) an Independent Non-Executive Director and Chairman of Audit Committee of VPower Group International Holdings Limited (stock code: 1608); and (v) an Independent Non-Executive Director and Chairman of Audit Committee of Everbright Grand China Asset Limited (stock code: 3699), the shares of which are all listed on the Hong Kong Stock Exchange.

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. Chao Pao Shu George

Mr. Chao, aged 72, was appointed as an Independent Non-Executive Director, a member of Audit Committee, Nomination Committee and Remuneration Committee of the Company on 16 September 2013, and further appointed as Chairman of Nomination Committee of the Group on 13 January 2016.

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

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

SENIOR MANAGEMENT

Mr. Chen Shaofei

Mr. Chen, aged 44, is the legal representative, chairman and general manager of Qingyuan Water Supply Development Company Limited, a subsidiary of the Group. Mr. Chen graduated from HeFei University of Technology in 1997 majoring in water projects. He is also a senior drainage engineer. Mr. Chen has over 21 years of experience in the water supply industry.

Mr. Zou Xiaowei

Mr. Zou, aged 60, is the legal representative and chairman of Qingxin District Taihe Water Company Limited, and the director of Qingyuan Water Supply Development Company Limited, both of which are the subsidiaries of the Group. Mr. Zou had served as a director and assistant of general manager of Guangdong Golden Dragon Development Inc. ("GD", the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000712).

Mr. Li Xiaorun

Mr. Li, aged 39, is the director and general manager of Qingxin District Taihe Water Company Limited, a subsidiary of the Group. Mr. Li graduated from Nanchang University in 2001 majoring in hydraulic and electric engineering. He is also a senior engineer. Mr. Li has more than 18 years of experience in the water supply industry.

Corporate Governance Report

The Company and the Board are devoted to achieve and maintain the highest standards of corporate governance and have adopted the principles of the corporate governance practices of the Listing Rules in the construction of its corporate governance practices. The Board believes that effective corporate governance practices are fundamental to enhancing shareholder value and safeguarding interests of the shareholders and other stakeholders of the Company. Accordingly, the Company has adopted sound corporate governance principles that emphasize on a quality Board, effective internal controls, stringent disclosure practices and transparency and accountability to all stakeholders of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Main Board CG Code**"). The Company has complied with all the applicable Code Provisions of the Main Board CG Code.

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

BOARD OF DIRECTORS

Board Composition

The Board comprises eight Directors, including four Executive Directors, namely, Mr. Chen Jinyang (Chairman), Mr. Chau Cheuk Wah (Chief Executive Officer), Ms. Zhu Fenglian and Ms. Zhang Haimei; one Non-Executive Director, namely Mr. Xuan Zhensheng; and three Independent Non-Executive Directors, namely Dr. Cheung Wai Bun, Charles, *J.P.*, Mr. David Tsoi and Mr. Chao Pao Shu George. Throughout the year and up to the date of this report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with at least one Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. To comply with Rule 3.10A of the Listing Rules, Independent Non-Executive Directors represented at least one-third of the Board throughout the year ended 31 December 2018.

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

Board's Responsibilities and Delegation

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

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

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

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

BOARD OF DIRECTORS *(continued)*

Compliance with the Model Code for Directors' Securities Transactions

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

Having made specific enquiry of all Directors, the Directors have complied with the above-mentioned required standards of dealings regarding Directors' securities transactions throughout year ended 31 December 2018.

Meetings

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

	Number of meeting attended/held	
Directors	**Board meetings**	**AGM**
Mr. Chen Jinyang	4/4	1/1
Mr. Chau Cheuk Wah	4/4	1/1
Mr. Zhou Jianhui (retired at the AGM on 29 June 2018)	3/3	1/1
Ms. Zhu Fenglian	4/4	0/1
Ms. Zhang Haimei	4/4	1/1
Mr. Xuan Zhensheng (appointed on 23 April 2018)	2/2	1/1
Dr. Cheung Wai Bun, Charles, *J.P.*	4/4	1/1
Mr. David Tsoi	4/4	1/1
Mr. Chao Pao Shu George	4/4	1/1

Corporate governance functions

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

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

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

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

BOARD OF DIRECTORS *(continued)*

Corporate governance functions *(continued)*

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

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

Directors' Continuing Professional Development Programme

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

COMPANY SECRETARY

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

Mr. Tang supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. He has attained not less than 15 hours of relevant professional training during the year 2018.

REMUNERATION COMMITTEE

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

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

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

The remuneration committee held two meetings for the year ended 31 December 2018. The composition of the remuneration committee during the year as well as the meeting attendance of the committee members are as follows:–

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 7(b) to the consolidated financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 December 2018 is set out below:

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

NOMINATION COMMITTEE

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

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

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

The nomination committee held two meeting for the year ended 31 December 2018. The composition of the nomination committee during the year as well as the meeting attendance of the committee members are as follows:–

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

Board Diversity Policy

The Board has adopted a policy on board diversity ("Board Diversity Policy"). Pursuant to the Board Diversity Policy, the Board shall consider the benefits of diversity when it reviews the Board composition. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience and qualifications, skills, knowledge, length of service and industry and regional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

NOMINATION COMMITTEE *(continued)*

Nomination Policy

The Board has adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

Selection Criteria

In evaluating and selecting any candidate for directorship, the following criteria shall be considered:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy.
- Any measurable objectives adopted for achieving diversity on the Board.
- Requirement for the Board to have independent directors in accordance with the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

NOMINATION COMMITTEE *(continued)*

Nomination Policy *(continued)*

Nomination Procedures

a. *Appointment of New Director*

(i) Meetings or written resolutions of the Nomination Committee shall be arranged for nominating candidate for the consideration by the Nomination Committee upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board shall rank them by order of preference based on the needs of the Company.

(iii) The Nomination Committee shall then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

b. *Re-election of Director at General Meeting*

(i) The Nomination Committee and/or the Board shall review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board shall also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board shall then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

NOMINATION COMMITTEE *(continued)*

Nomination Policy *(continued)*

Nomination Procedures *(continued)*

b. *Re-election of Director at General Meeting (continued)*

Re-election of Directors is conducted in accordance with the articles of association of the Company. The criteria of assessing a candidate include his/her ability to devote sufficient time and attention to participate in the affairs of the Company including the attendance of Board meetings and serving on committees. Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations. Where an independent non-executive director is proposed for re-election at the general meeting, the circular and/or explanatory statement should state: (a) the process used for identifying the individual and why the board believes the individual should be elected and the reasons why it considers the individual to be independent; (b) if the proposed independent non-executive director will be holding his/her seventh (or more) listed company directorship, why the board believes the individual would still be able to devote sufficient time to the board; (c) the perspectives, skills and experience that the individual can bring to the board; and (d) how the individual contributes to diversity of the board.

Monitoring, Reporting and Regular review

The Nomination Committee shall disclose annually in the corporate governance report of the Company's annual report this Nomination Policy and its work, pursuant to the legal and regulatory requirements. This Nomination Policy shall be reviewed when necessary, and can be revised by the Board from time to time.

RISKS MANAGEMENT AND INTERNAL CONTROLS

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

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

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company. The financial statements set out on pages 70 to 151. Financial results of the Company are announced in a timely manner in accordance with statutory and/or regulatory requirements. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, and have therefore prepared the Company's accounts on a going concern basis.

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

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2018 are set out in the Independent Auditor's Report on pages 65 to 69.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the remuneration paid and payable to the external auditor of the Group for services provided are set out as follows:

SERVICES RENDERED	Fee Paid/Payable 2018 HK$'000
Statutory audit services	1,096
Review of interim results	519
NON-AUDIT SERVICES:–	
Taxation services	121
	1,736

AUDIT COMMITTEE

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

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

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

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

The audit committee held two meetings for the year ended 31 December 2018. The composition of the audit committee during the year as well as the meeting attendance of the committee members are as follows:-

Audit Committee	Attendance
Mr. David Tsoi *(Chairman)*	1/2
Dr. Cheung Wai Bun, Charles, *J.P.*	2/2
Mr. Chao Pao Shu George	2/2

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group. The recommendation of the payment of any dividend is subject to the discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders of the Company. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's operations, earnings, financial condition, capital requirements and any other conditions the Directors may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company. The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods

SHAREHOLDERS' RIGHTS

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

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

INVESTOR RELATIONS

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

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

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

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

SCOPE AND REPORTING PERIOD

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

The Group mainly provides water treatment services through the operation of Qingyuan Water Supply Development Company Limited ("Water Supply Development Company") and Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Company"). The Water Supply Development Company supplies freshwater to the Qingyuan, Guangdong Province of the People's Republic of China ("PRC") while Taihe Company supplies freshwater to Taihezhen, Guangdong Province of the PRC. Both companies source water from local rivers.

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the water treatment operations of Water Supply Development Company, Taihe Company, and the business operation in the headquarters office in Sheung Wan, Hong Kong (the "Headquarters"), hereafter referred as "the Water Plants and Headquarters", from 1 January 2018 to 31 December 2018, unless otherwise stated.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values input from its stakeholders. Apart from engaging internal stakeholders, the Group participated in industry associations such as the Guangdong Cities and Towns Water Supply Association and the Northern Guangdong Communication Group to share and exchange industrial news and ideas; and communicated with its internal and external stakeholders through meetings, face-to-face discussions, questionnaires and networking events.

In particular, the Group engaged its shareholders, employees, regulatory institutions, suppliers and customers (including business and household customers) through surveys to determine the material ESG aspects for this ESG Report. Below are the top five material aspects and the respective management on the aspects:

STAKEHOLDER ENGAGEMENT AND MATERIALITY *(continued)*

Material Aspects	Management on the Aspects
Water (at source)	Ensure stability and quality of water source through frequent laboratory tests, examining biological test results, contingency plan and drills regarding contaminated or polluted water source.
Waste and Effluent	Ensure storage, handling and collection of hazardous waste, non-hazardous waste, mud and wastewater are collected according to the requirement of the environmental impact assessment.
Occupational health and safety ("OH&S")	Provide medical insurance, annual body checks, annual women health checks, proper Personal Protective Equipment ("PPE") and health and safety trainings to employees.
Water supply quality and safety	Ensure quality and safety of water (including surface water, raw water, supply water and pipe network water) through frequent laboratory tests and control chemical use, hygiene and safety throughout the treatment process.
Amount of water supply	Analyse freshwater shortage problem of Qingxin District and expanded its water supply network and coverage.

The Board of Directors of the Group reviews and discusses ESG performance annually to identify associated risks. Details on managing the above identified aspects are described in separate sections below. Opinions and recommendations collected from stakeholders will also be considered as important factors in future decision-making processes.

STAKEHOLDERS' FEEDBACK

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

THE GROUP'S SUSTAINABILITY MISSION AND VISION

Mission

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

THE GROUP'S SUSTAINABILITY MISSION AND VISION *(continued)*

Vision on Sustainability

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

MAJOR CHALLENGES AND DEVELOPMENT

The water treatment operations abide by the Water Supply Management Method of Qingyuan, the Civilization Convention of Qingyuan and the applicable laws and regulations of the PRC. In the past few years, the escalating freshwater demand has increased pressure on the water treatment operations. In the reporting period, the water treatment operations have expanded the water supply area and have increased the water supply by 8.66% when compared to the last reporting period. The freshwater shortage problem was particularly significant in Qingxin District. Therefore, Taihe Company has submitted an analysis report regarding freshwater shortage in Qingxin District to the shareholders, the council, the government and the municipal water authority of the district. To tackle the water shortage problem, Taihe Company has expanded its water supply network and coverage during the reporting period. Due to the limited capacity for freshwater processing, the Water Supply Development Company constantly purchases freshwater from other freshwater supply companies to meet freshwater demand of Qingyuan.

Other challenges the Group encountered include overcoming pressure imbalance in water distribution process and standardizing service quality across different locations. The Group will constantly endeavour to improve existing pipe network, increase and standardize customer services. During the reporting period, Water Supply Development Company has set up a working group for transmission and distribution of supply water, which focuses on implementing water transmission and distribution tasks with stable water pressure. This helps the company to enhance water supply efficiency and standardize service quality.

A. ENVIRONMENTAL

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

The intensities below are calculated in terms of emission or resources consumption per million m^3 of supplied water.

A1. Emissions

A1.1. Air Emissions

During the reporting period, LPG was consumed for canteen operation, and petrol and diesel were consumed for Group-owned vehicles, which contributed to the emission of 106.55 kg of nitrogen oxides ("NO_x"), 0.52 kg of sulphur oxides ("SO_x") and 4.58 kg of respiratory suspended particles ("PM").

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

A1.2. Greenhouse Gas ("GHG") Emissions

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tonnes of carbon dioxide equivalent "tCO_2e")	Total Emission (in percentage)
Scope 1			
Direct Emission	LPG consumed by the canteen operation	1.71	0%
	Petrol consumed by Group owned vehicles	62.57	
	Diesel consumed by Group owned vehicles	29.87	
Scope 2			
Energy Indirect Emission	Purchased electricity	23,960.50	100%
Scope 3			
Other Indirect Emission	Paper waste disposal	14.95	0%
	Business air travel	0.48	
Total		24,070.08	

Note 1: Group-owned vehicles include only Group-owned vehicles in the Water Plants and Headquarters.

Note 2: Emission factors were made reference to Appendix 27 of the Main Board Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited, unless stated otherwise.

Note 3: Combined margin emission factor of 0.63 tCO_2/MWh was used for purchased electricity in Guangdong Province of the PRC.

Note 4: Emission factor for combustion of LPG and diesel for stationary source were calculated with made reference to GHG Emissions from Stationary Combustion (Chinese), provided by the Greenhouse Gas Protocol.

Note 5: The above emission data does not include the removal of CO_2 contributed by recycling of paper.

There were 24,070.08 tonnes of carbon dioxide equivalent greenhouse gases (mainly carbon dioxide, nitrous oxides and methane) emitted from operation of the Water Plants and Headquarters in the reporting period. The annual emission intensity was 180.30 tCO_2e/million m^3, which has slightly increased when compared to the emission intensity in the last reporting period.

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

A1.3. Hazardous Waste

The water treatment operations consume chemicals include polyaluminium chloride ("PAC"), hydrochloric acid, sodium chlorate and sodium hypochlorite. When disposed improperly, hazardous waste poses potential hazard to human health and the environment. Therefore, hazardous materials used by the water treatment operations are handled carefully. A total of 0.04 tonnes of laboratory waste was generated during the reporting period. Laboratory waste generated have been collected by licensed collectors.

A1.4. Non-hazardous Waste

Non-hazardous waste generated from the Group were mainly mud from dewatered wastewater in the water treatment operations and paper from the office operations. Mud is either stockpiled on site or disposed of back to the waterbodies in accordance with the requirement set out by the environmental impact assessment. Mud stockpiled will be collected by qualified collectors when stockpile area is overloaded. A total of 3.39 tonnes of paper has been used for daily office operations such as documents printing and deliverables packaging. Printed documents are usually filed and stored for record.

A1.5. Measures to Mitigate Emissions

The Water Plants and Headquarters strictly manage fuel usage and distance travelled by their vehicles. Fuel consumption is estimated, verified and announced monthly and preference is given to fuel efficient vehicles when purchasing new vehicles. Air conditioners in cars are only switched on during hot weather, rainy or foggy days. Taihe Company's greening work has created an aesthetic environment and improved the air quality.

A1.6. Waste Reduction and Initiatives

The Group understands that high paper consumption piles pressures on the Earth's natural forests and endangered wildlife. Therefore, it practices paper saving initiatives, such as encouraging employees to use duplex printing for internal documents and adopt environmentally friendly photocopy habit. Wastepaper collection containers are provided in prominent area for paper reuse. During the reporting period, 275.68 kg of paper had been recycled, contributing to a reduction of 1.32 tCO_2e emission.

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources

A2.1. Energy Consumption

The energy use involved in the Water Plants and Headquarters during the reporting period included the consumption of electricity, petrol, diesel and LPG. The annual energy consumption was 38,330.19 MWh and the consumption intensity was 287.12 MWh/million m^3, which was slightly increased when compared to the consumption intensity in the last reporting period.

Energy Consumption Sources	Direct Consumption	Consumption in MWh	Consumption Intensity (in MWh/ million m^3)
Electricity	38,009 MWh	38,009	284.71
LPG	540 kg	7.53	0.06
Petrol	23,214.32 L	205.72	1.54
Diesel	10,796.20 L	107.94	0.81

A2.2. Water Consumption

The water treatment operations source raw water directly from the local Beijiang River and its tributary with licences and approvals from the local government. They sourced approximately 138.61 million m^3 of raw water during the reporting period.

Due to the rapid development of Qingxin District, the residential area became near to the original raw water uptake point of Taihe Company. To avoid potential pollution of raw water, the raw water uptake point had moved upstream during the reporting period. No other issue in sourcing water that is fit for purpose had been identified.

Wastewater

The water treatment operations also generated 9,836.92 tonnes of tank-washing wastewater during the reporting period. Wastewater was discharged back to the water bodies in compliance with the requirement of the environmental impact assessment.

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

A2.3. Energy Use Efficiency Initiatives

The Water Plants and Headquarters proactively explore opportunities to electricity consumption reduction and equipment optimization. The water plants implemented the following measures in the reporting period:

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

In office area, lights are turned off during lunch time and before leaving work to reduce unnecessary electricity consumption. Air conditioning is maintained at 26°C or higher in summer and the use of heaters are avoided in winter.

A2.4. Water Use Efficiency Initiatives

The water treatment operations continuously put effort in reducing water loss. In the reporting period, several initiatives were implemented to conserve water resources:

- Adopting a more efficient and water-saving siphoning method during sludge discharge;
- Reusing treated backwash water for water supply (ensuring that supply water standard is met);
- Controlling backwash water consumption, frequency and time length depending on raw water turbidity; and
- Planning to construct a recycling pool for collecting water for recycling.

A2.5. Packaging Materials

There were no packaging materials used for the Group's business operation.

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

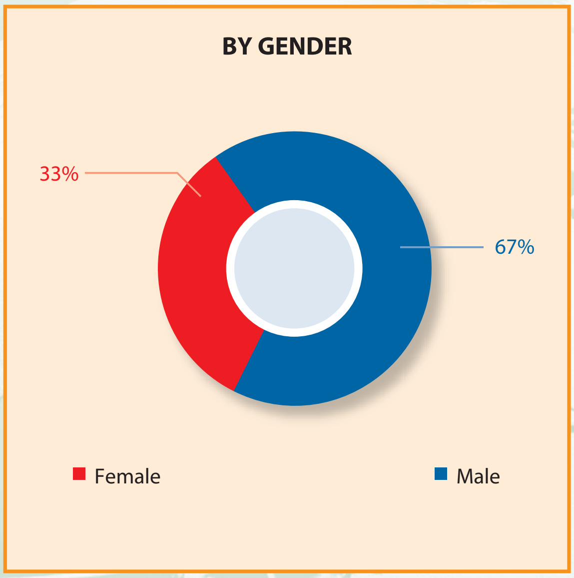
The most significant source of GHG emission of the Group's operation was electricity consumption and with freshwater processing as its major business, it attaches great importance to electricity consumption reduction and water conservation. Adverse impact to the environment had been reduced through enhancing energy consumption efficiency and controlling consumption and efficiency of backwashing.

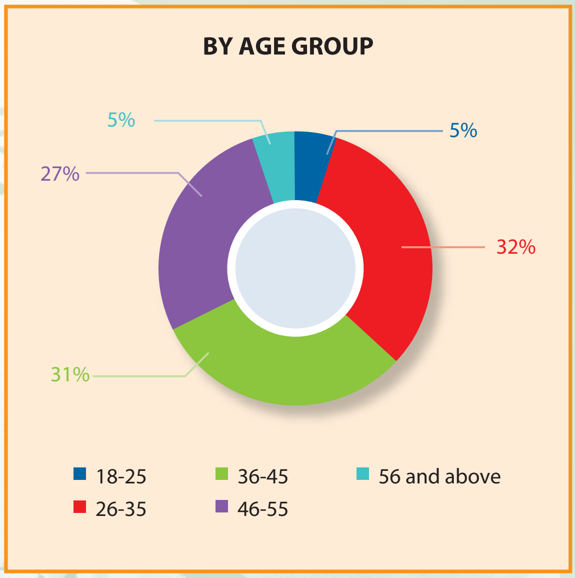
B. SOCIAL

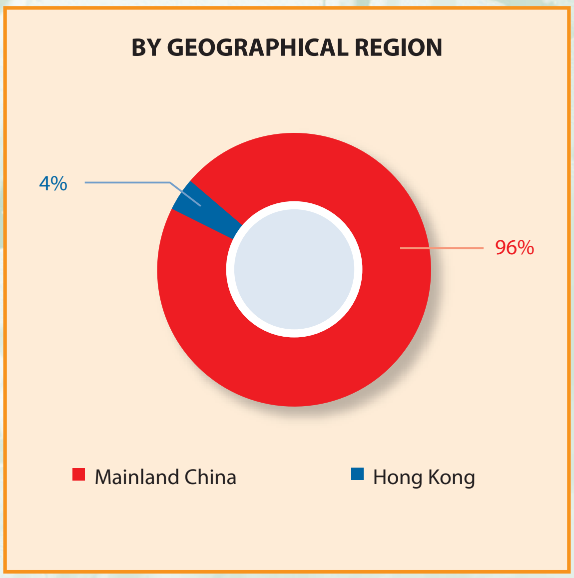
1. Employment and Labour Practices

B1. Employment

The Water Plants and Headquarters had a total number of 359 employees as at 31 December 2018, in which all of them was working as full-time staff. The following graphs show the total workforce by gender, age group and geographical region.







There was no material non-compliance in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods and other benefits and welfare during the reporting period.

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B1. Employment *(continued)*

Remuneration and Benefits

The Group complies with all applicable employment and labour laws of the PRC and Hong Kong. It offers competitive remuneration, promotion opportunity, compensation and benefit packages to attract and retain talents. The policies on remuneration and welfare of employees are reviewed, approved, implemented and executed by various departments. The Group ensures that remuneration packages are appealing to employees with reasonable returns provided, based on their performances, duties and market values. Appropriate procedures have been established in employment contract to settle any dispute. To safeguard employee rights and interests, the Water Supply Development Company has set up a Labour Union ("the Union") according to the Trade Union Law of the PRC and the Chinese Trade Union Constitution of the PRC, which aims to promote productivity, gather, unify and invigorate workforce.

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

Awards and Penalty System

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

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B1. Employment *(continued)*

Equal Opportunity

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

Employment Communication

The Group encourages equal communication between frontline staff and the management, and promotes harmonious relationships in the workplace. The Human Resources Department is responsible for enhancing communication among employees, protecting labour's welfare and dealing with complaints. The Group's policies and important announcement are circulated among employees through intranet, notice boards and meetings. A basketball court was built near the water plant of Taihe Company which enables employees to relax themselves during leisure time. Employees also participate regularly in the various sports activities organized by the Qingxin District of Qingyuan.

During the reporting period, the Group has engaged employees through annual meetings, annual gathering, hiking and sports activities, boat trips, the celebration of the Party anniversary, the basketball game of Qingxin District 2018, knowledge competition and exchange activities among the freshwater processing companies of Dongguan, Shaoguan and Shantou of Guangdong Province.

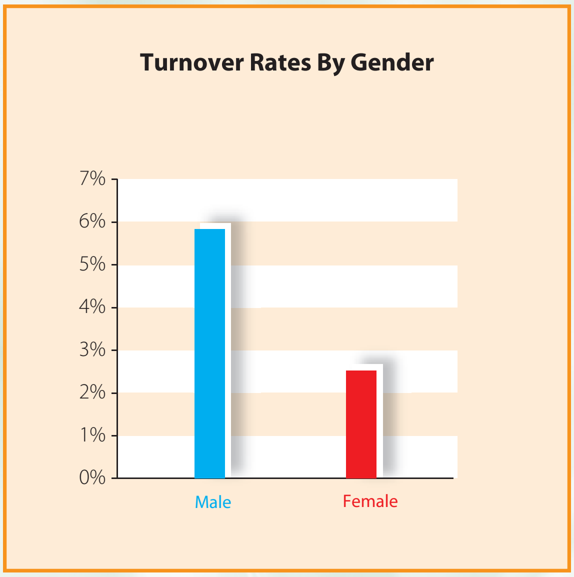
B. SOCIAL *(continued)*

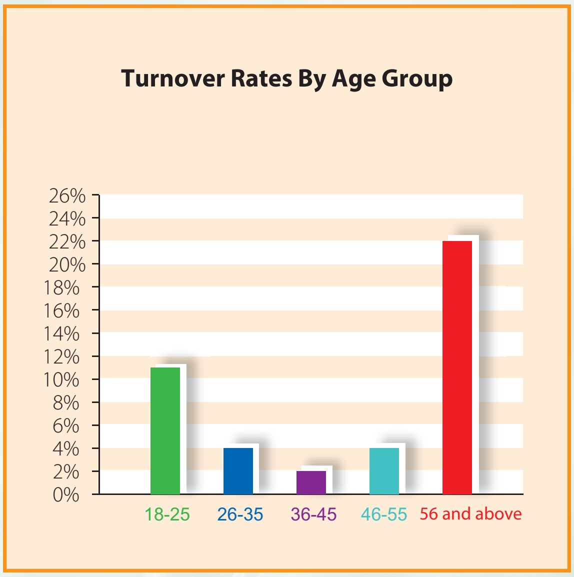
1. Employment and Labour Practices *(continued)*

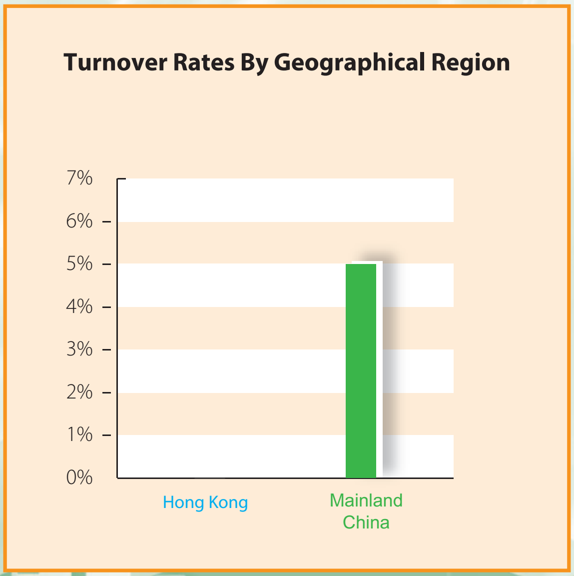
B1. Employment (continued)

Turnover

A total of 17 employees had left the Water Plants and Headquarters during the reporting period, with an average turnover rate of 4.74%. The annual turnover rates categorized by different gender, age group and geographical region in the reporting period are shown below.







B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B2. Occupational Health and Safety

The Group complies with its policy on OH&S, all applicable health and safety laws of the PRC and Hong Kong. It is committed to equipping employees with proper PPE, delivering OH&S knowledge, and providing trainings to employees in accordance with national standards. The water treatment operations allocated responsible person for safety management, established a safety management system and targeted at zero occupational disease incidents. Internal fire safety inspection is conducted annually. Employees who deal with hazardous materials should carry out body check before start of work and regularly throughout their work period. Employees diagnosed with occupational diseases will immediately be transferred to other posts which are not exposed to relevant risks of occupational disease. Annual body check is also provided to frontline staff who handle chemicals, toxic substances, radioactive sources, and drinking water. High-temperature subsidy is provided to employees working under high temperature according to the statutory heatstroke prevention and cooling measures.

The Water Supply Development Company has a Production Safety and Accidents Emergency Plan, in which potential risks and hazards had been identified and comprehensive contingency plan had been developed for production accidents (such as natural disasters, water pollution and contamination, pipe network destruction, war and terrorist activities). Through drills and training, employees are aware of the potential risks, hazards and the actions to be taken when accidents occurred.

During the reporting period, the water treatment operations focused on promoting safe work in confined spaces (e.g. water tanks) and safe handling of chemicals. Water tanks were locked to avoid unauthorized access and employees were trained with related knowledge. Policies on management of precursor chemicals (e.g. hydrochloric acid) and rules on storing hydrochloric acid had been posted at conspicuous locations. Storage area with explosives (e.g. chlorine dioxide) were also installed with gas detectors and surveillance camera to avoid explosion and unauthorized access respectively.

Occupational Health and Safety Data in 2018	
Work related fatality	0
Work injury cases >3 days	0
Work injury cases ≤3 days	0
Lost days due to work injury	0

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

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B3. Development and Training

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

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

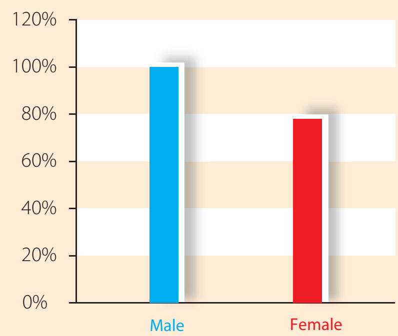
B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

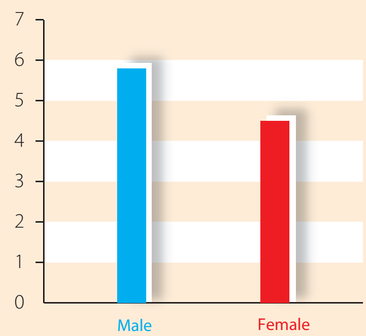
B3. Development and Training *(continued)*

The total training hours conducted by the Water Plants and Headquarters in 2018 were 1,908 hours. The graphs below show the percentage of employees trained and average training hours by gender and by employee category.

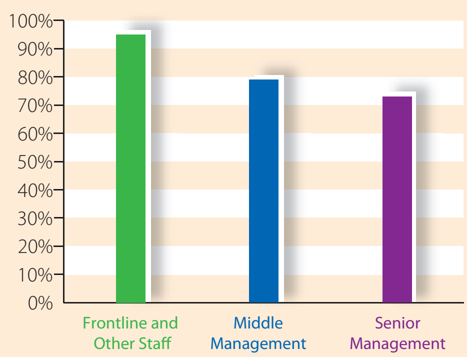
Percentage of Employees Trained by Gender



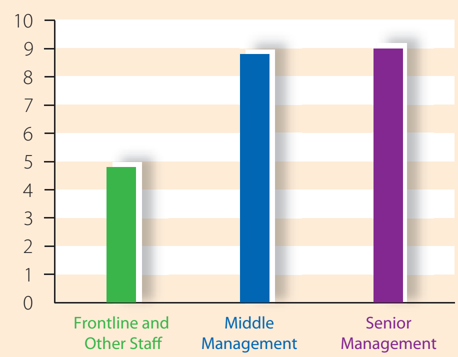
Average Training Hours by Gender



Percentage of Employees Trained by Employee Category



Average Training Hours by Employee Category



B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B4. Labour Standard

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

2. Operating Practices

B5. Supply Chain Management

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

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

The Management Committee reviews and evaluates suppliers annually to produce a list of qualified suppliers and a blacklist of substandard suppliers. Inspections are conducted to assess suppliers' licenses, storage environment, equipment, and health conditions. Although the Group has no policies on managing environmental and social risks of the supply chain, it gives priority to energy efficient equipment when purchasing new equipment.

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B6. Product Responsibility

Supply Water Quality and Chemical Use

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

Chemicals including PAC, hydrochloric acid, sodium chlorate and sodium hypochlorite were used in the water treatment for flocculation, pH adjustment, disinfection and purification. All chemicals were carefully handled according to relevant specifications and guidelines, properly stored and bunded if necessary. Input of chemicals during the treatment process is conscientiously controlled and monitored through obtained real-time data of chemical input in different treatment processes. Chemical spillage contingency plan is in place and emergency drills for chemical spillage are organized regularly. There was no material non-compliance with laws and regulations relating to health and safety of products and services during the reporting period.

Customer Service

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

It is also essential to provide channels for customers to voice opinion and raise complaints. End-users can raise enquiries and complaints through the government hotline, the water plants' direct line, WeChat public accounts, suggestions collection boxes or receptions at their operation centers. The Group's business operation does not involve in sales, shipping and recalling of products. The water plants had recorded around 360 complaints on water supply services in the reporting period. All complaints have been followed up and resolved.

During the reporting period, the Group has formulated a service quality assessment program which aims to strengthen the overall quality management system and evaluate service quality of different service units in a more effective manner. Quantitative targets such as targets regarding the total number of complaints, the percentage of user satisfaction, and the percentage of replies with respect to hotline enquiries have been set to improve service performances. There was no material non-compliance with laws and regulations relating to advertising, labelling and methods of redress of products and services during the reporting period.

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B6. Product Responsibility *(continued)*

Intellectual Property ("IP")

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

Information Security

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

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

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B7. Anti-corruption

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

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

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

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B8. Community Investment

Although the Group has no policy on community engagement, as a public utility, the Group cares for the community and strives to improve quality of life in its community.

Caring for the Youth

During the reporting period, Taihe Company has donated 100 books to a secondary school in Qingxin District, which costed approximately RMB2,000. In March 2018, it has also provided an opportunity for the students, their parents and staff from local primary schools to visit the water plant, allowing the new generation to understand more about the operation of public utility. The visit has also enhanced the visitors' awareness on water conservation and management.

Raising Environmental and Social Awareness

The Group is aware of the global environmental and social movements and responds to the movements through awareness raising events.

Observing the World Consumer Rights day on 15 March 2018, the Group participated in the Consumer Rights Day event organized by the local government, Consumer Council and Administration Bureau for Industry and Commerce, to raise community awareness on consumer rights and needs. With the slogan of "Walking into the communities and villages", the Group has also participated in various promotional events regarding water consumption, including an outdoor promotional activity for the World Water Day 2018. Through these promotional events, the Group has addressed concerns raised by the community regarding supply water quality and resolved their misunderstandings regarding raw water and pipe network water.

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the principal subsidiaries are set out in note 41 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2018, and an indication of likely future development in the Group's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this Annual Report.

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

Environmental policies and performance

For the year ended 31 December 2018, the Group's business operation made continuous effort on minimizing damage to the environment, conserving water resources, and ensuring quality and stable water supply to the community. No non-compliance in relation to environmental and social aspects was recorded. Engagement with stakeholders has resulted in raised concerns on key material issues, which include (i) water at source, (ii) occupational health and safety, (iii) customer data protection, (iv) customer service and (v) water supply quality and safety. These aspects had already been managed by the Group and the Group will continue to keep close communication with its stakeholders for advancing its environmental, social and governance management.

Compliance with law and regulations

The Group has ongoing review and continues to update the newly enacted laws and regulations in various countries affecting the business and operation of the Group, particularly in Hong Kong and the PRC. During the year ended 31 December 2018 and up to the date of this annual report, the Group was not aware of any non-compliance with laws and regulations that has significant impact relating to relevant law and regulations in Hong Kong and the PRC in all respects.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group at 31 December 2018 are set out in the consolidated financial statements on pages 70 to 151.

No interim dividend was declared and paid during the year (2017: HK$Nil).

The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: HK$Nil).

FIVE YEARS FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PREMIUM

The Group purchased property, plant and equipment amounting to HK$50,914,000 during the year.

Details of movements in property, plant and equipment and prepaid land lease premium of the Group during the year are set out in notes 13 and 14 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

At 31 December 2018, the investment properties of the Group were revalued by an independent valuer on an open market value basis at HK$46,599,000.

Details of movements in investment properties of the Group during the year are set out in note 15 to the consolidated financial statements.

BANK AND OTHER BORROWINGS

At 31 December 2018, the Group has secured bank loan, and unsecured government loan amounting to HK$452,179,000. Details of bank and other borrowings are set out in note 28 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 29(a) to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in note 31 to the consolidated financial statements.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 15 February 2019, the Company, Billion Eminence Investment Limited ("Brilliant Eminence"), and Chevalier Earth Group Limited ("Chevalier Earth") entered into the Acquisition Agreement, pursuant to which Brilliant Eminence (as vendor) has conditionally agreed to sell, and the Company (as purchaser) has conditionally agreed to purchase, the entire issued share capital of Chevalier Earth and the entire loans owing by Chevalier Earth and its subsidiaries to Brilliant Eminence and its affiliates for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400) (the "Consideration"). The purpose of the Acquisition is to acquire certain commercial properties in Guangzhou, China. Simultaneously, the Company launched the Rights Issue and the Placing which are conditional upon the raising of aggregate minimum gross proceeds of HK$710,000,000, which is sufficient to cover the Consideration. The Rights Issue and Placing have not yet completed as at the date of this annual report. If the Company does not manage to raise minimum gross proceeds of HK$710,000,000 through the Rights Issue and the Placing, it does not intend to proceed with the Completion of the Acquisition Agreement.

Ms. Zhu Fenglian, an executive Director, is also the owner of one of the properties to be acquired under the Acquisition. The Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The acquisition is subject to independent shareholders' approval and has not yet completed as at the date of this annual report.

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

MANAGEMENT CONTRACTS

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year ended 31 December 2018 and as at the date of this report were:

Executive Directors:

Chen Jinyang *(Chairman)*
Chau Cheuk Wah *(Chief Executive Officer)*
Zhou Jianhui (retired at the AGM on 29 June 2018)
Zhu Fenglian
Zhang Haimei (re-designated from a non-executive Director to an executive Director on 23 April 2018)

Non-Executive Director:

Xuan Zhensheng (appointed on 23 April 2018)

Independent Non-Executive Directors:

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

EQUITY-LINKED AGREEMENTS

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

Share Options

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

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

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

At 31 December 2018, the number of shares in respect of which options had been granted and outstanding under the New Share Option Scheme was 40,000,000, representing approximately 1.9% of the issued share capital of the Company.

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

					Number of share options						
Grantees	Date of grant	Vesting period	Exercise period	Exercised price	Outstanding at 1 January 2018	Granted during the year	Exercise during the year	Lapsed during the year	Outstanding at 31 December 2018	Market value per share at date of grant of option	Market value per share on exercise of option
Directors of the Group	25 November 2013	Fully vested on 25 November 2013	25 November 2013 to 11 August 2020	HK$0.465	60,000,000	–	–	(20,000,000)	40,000,000	HK$0.460	–

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

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

As at 31 December 2018, the interests or short positions of the Directors and chief executives or their associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")) which (i) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:–

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

Notes:

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

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

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

3. There were no debt securities nor debentures issued by the Group at any time during the year ended 31 December 2018.

Save as disclosed above, so far as the Directors are aware as at 31 December 2018, none of the Directors or chief executives or their associates of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

The Directors confirmed that as at 31 December 2018 and for the year ended 31 December 2018:–

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

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2018, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or who have direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company were as follows:–

Long positions in the shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of interests
Ever City (note 1)	Beneficial owner and interest in controlled corporation	520,380,000	24.54%
Ms. Zhu Fenglian (note 1)	Interest in controlled corporation	520,380,000	24.54%
Affluent Vast (note 1)	Interest in controlled corporation	520,380,000	24.54%
Eastcorp (note 1)	Beneficial owner	200,000,000	9.43%
Zhang Songming	Beneficial owner	317,540,000	14.98%
Tang Wing Hung (note 2)	Interest in controlled corporation	160,440,000	7.57%
Passion Ease Limited (note 2)	Beneficial owner	160,440,000	7.57%

Notes:

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

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

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

Long positions in the shares of the Company *(continued)*

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at 31 December 2018, no other persons had notified the Company of any interest or short position in the shares or underlying shares of equity derivatives of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or any direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executives' interests or short positions in shares, underlying shares and debentures" and "Persons who have an interest or a short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholding" above, as at 31 December 2018, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision that provides for indemnity against liability incurred by directors and chief executives of the Group is currently in force and was in force throughout the year ended 31 December 2018.

CONNECTED TRANSACTIONS

On 15 February 2019, the Company, Billion Eminence Investment Limited ("Brilliant Eminence"), and Chevalier Earth Group Limited ("Chevalier Earth") entered into the Acquisition Agreement, pursuant to which Brilliant Eminence (as vendor) has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the entire issued share capital of Chevalier Earth and the entire loans owing by Chevalier Earth and its subsidiaries to Brilliant Eminence and its affiliates, for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400) (the "Consideration"). The purpose of the Acquisition is to acquire certain commercial-use properties in Guangzhou, China. Simultaneously, the Company launched the Rights Issue and the Placing which are conditional upon the raising of aggregate minimum gross proceeds of HK$710,000,000, which is sufficient to cover the Consideration. The Rights Issue and Placing have not yet completed as at the date of this annual report. If the Company does not manage to raise minimum gross proceeds of HK$710,000,000 through the Rights Issue and the Placing, it does not intend to proceed with the Completion of the Acquisition Agreement.

Ms. Zhu Fenglian, an executive Director, is also the owner of one of the properties to be acquired under the Acquisition. The Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS *(continued)*

The acquisition is subjected to independent shareholders' approval and the proposed acquisition has not yet completed as at the date of this annual report.

COMPETITION AND CONFLICT OF INTERESTS

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

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 8% of the total sales for the year and sales to the largest customer included therein amounted to approximately 2%. Purchases from the Group's five largest suppliers accounted for approximately 16% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 13%.

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

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 22 to 33 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2018. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control, risk management and financial reporting matters.

AUDITOR

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

On behalf of the Board

Chen Jinyang
Chairman

Hong Kong, 29 March 2019

PKF

Accountants &
business advisers

大信梁學濂(香港)會計師事務所有限公司

26/F, Citicorp Centre
18 Whitfield Road
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL TECHNOLOGIES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Universal Technologies Holdings Limited and its subsidiaries (together the "Group") set out on pages 70 to 151, 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 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
<u>**Impairment assessment of goodwill and intangible assets**</u>	
Refer to notes 16 and 17 in the consolidated financial statements. The Group has goodwill of HK$99,037,000 and intangible assets of HK$353,701,000 respectively relating to the water supply business and financial services segments. No impairment has been made over these balances. Given the nature of these assets, the assessment of impairment involves significant estimation uncertainty, subjective assumptions and application of significant judgement. In the annual impairment review, management has concluded that there is no impairment in respect of the goodwill and intangible assets. This conclusion was based on a value-in-use model that required significant management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth.	Our audit procedures in relation to management's impairment assessment included: — Obtain an understanding of the Group's procedures and method of estimation, including any control activities applied, significant assumptions made and management's assessment of estimation uncertainty; — Re-calculate the estimation made by the management; — Review outcome of estimation made in prior period; — Evaluate whether the method of estimation and assumptions made are appropriate; — Test the data used by the management in the estimation; — Review subsequent events relevant to the estimation; — Determine whether indication of possible management bias exists; — Evaluate the recognition and measurement criteria used and disclosure made by management; and — Evaluate the sensitivity analysis performed by the management on the key assumptions used in the impairment assessment and assess the potential impacts of a range of possible outcomes.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PKF Hong Kong Limited
Certified Public Accountants
Tsui Kar Lam, Karen
Practising Certificate Number P06426
Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	4	**271,909**	248,536
Cost of sales/services rendered		**(187,350)**	(155,917)
Gross profit		**84,559**	92,619
Other income and gains	5	**19,880**	38,092
General and administrative expenses		**(75,596)**	(63,574)
Profit from operations		**28,843**	67,137
Finance costs	6(a)	**(28,239)**	(27,235)
Profit before income tax	6	**604**	39,902
Income tax expense	8	**(10,621)**	(15,326)
(Loss)/profit for the year		**(10,017)**	24,576
Attributable to: –			
Shareholders of the Company		**(26,805)**	2,660
Non-controlling interests		**16,788**	21,916
(Loss)/profit for the year		**(10,017)**	24,576
(Loss)/earnings per share (in cents)	11		
– Basic		**(1.26)**	0.13
– Diluted		**(1.26)**	0.13

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
(Loss)/profit for the year	**(10,017)**	24,576
Other comprehensive (loss)/income:–		
Items that may be reclassified subsequently to profit or loss:–		
Exchange differences arising on translation of financial statements of overseas subsidiaries	**(4,765)**	3,767
Other comprehensive (loss)/income for the year, net of tax	**(4,765)**	3,767
Total comprehensive (loss)/income for the year	**(14,782)**	28,343
Total comprehensive (loss)/income attributable to:–		
Shareholders of the Company	**(25,549)**	(2,211)
Non-controlling interests	**10,767**	30,554
	(14,782)	28,343

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**493,213**	503,874
Prepaid land lease premium	14	**28,706**	30,533
Investment properties	15	**46,599**	50,775
Intangible assets	16	**353,701**	411,342
Goodwill	17	**99,037**	99,037
Deposit paid for acquisition of property, plant and equipment	18	**13,224**	14,249
Deferred tax assets	9(a)	**266**	–
		1,034,746	1,109,810
CURRENT ASSETS			
Inventories	19	**24,467**	4,713
Debtors	20	**24,195**	26,305
Deposits, prepayments and other receivables	21	**7,713**	10,702
Prepaid land lease premium	14	**557**	693
Fixed deposits		**122,135**	80,716
Pledged time deposit	28	**—**	291,239
Cash and bank balances	22	**166,533**	230,420
		345,600	644,788
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	28	**6,687**	344,968
Trade payables	23	**10,606**	33,154
Payable to merchants	24	**3,011**	3,017
Deposits received, sundry creditors and accruals	25	**130,072**	177,245
Contract liabilities	26	**23,396**	—
Amounts due to related companies	27	**46**	39,383
Tax payable		**5,522**	3,635
		179,340	601,402
NET CURRENT ASSETS		**166,260**	43,386

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,201,006**	1,153,196
DEDUCT:			
NON-CURRENT LIABILITIES			
Bank and other borrowings	28	**445,492**	364,884
Deferred tax liabilities	9(a)	**60,451**	66,751
		505,943	431,635
NET ASSETS		**695,063**	721,561
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	29(a)	**21,205**	21,205
Reserves	31	**459,443**	484,992
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**480,648**	506,197
NON-CONTROLLING INTERESTS		**214,415**	215,364
TOTAL EQUITY		**695,063**	721,561

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 29 MARCH 2019

CHEN JINYANG
DIRECTOR

CHAU CHEUK WAH
DIRECTOR

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**604**	39,902
Adjustments for:-			
Interest on bank deposits		**(10,001)**	(10,755)
Interest expenses		**27,948**	26,440
Depreciation		**41,428**	35,181
Amortisation of prepaid land lease premium		**846**	733
Amortisation of intangible assets		**39,249**	16,330
Loss on disposal of property, plant and equipment		**73**	17
Gain on disposal of prepaid land lease premium		**(2,067)**	—
Increase in fair value of investment properties		**(231)**	(5,343)
Impairment loss on debtors		**555**	504
Reversal of impairment loss on other receivables		**(4)**	(56)
Gain on early extinguishment of bank loans		**(7,077)**	—
Unrealised exchange gain		**(6)**	(6,587)
Operating profit before working capital changes		**91,317**	96,366
Increase in inventories		**(19,754)**	(2,107)
Decrease/(increase) in debtors		**1,555**	(3,655)
Increase in other deposits, prepayments and other receivables		**(534)**	(1,811)
(Decrease)/increase in trade payables		**(22,548)**	30,721
(Decrease)/increase in deposits received, sundry creditors and accruals		**(21,465)**	14,847
Increase in contract liabilities		**3,781**	—
Decrease in amounts due to a related companies		**(39,337)**	(37,116)
Cash (used in)/from operations		**(6,985)**	97,245
Bank interest received		**13,528**	8,960
Tax paid		**(13,944)**	(28,829)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		**(7,401)**	77,376

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		**(34,935)**	(80,591)
Proceeds from disposal of property, plant and equipment		**52**	8
Proceeds from disposal of prepaid land lease premium		**2,601**	—
Payments to acquire investment properties		**(1,104)**	—
Payments to acquire intangible assets		**(10,557)**	(6,410)
Deposit paid for acquisition of property, plant and equipment		**–**	(1,005)
Net cash outflow from acquisition of a subsidiary	32	**–**	(8,773)
NET CASH USED IN INVESTING ACTIVITIES		**(43,943)**	(96,771)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in pledged time deposit		**–**	(284,643)
Release of pledged time deposit		**291,239**	262,898
Proceeds from new bank loans		**264,942**	272,659
Interest paid		**(35,814)**	(34,228)
Repayment of bank loans		**(471,015)**	(336,703)
Dividend paid to non-controlling shareholder of a subsidiary		**(11,716)**	—
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**37,636**	(120,017)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(13,708)**	(139,412)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**(8,760)**	12,913
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**311,136**	437,635
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**288,668**	311,136
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**166,533**	230,420
Fixed deposits		**122,135**	80,716
		288,668	311,136

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to shareholders of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Share options reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1.1.2017	21,205	513,344	481	1,093	10,754	19,167	3,997	5,000	(66,633)	508,408	184,810	693,218
Total comprehensive (loss)/income for the year	–	–	–	–	–	(4,871)	–	–	2,660	(2,211)	30,554	28,343
Transferred to statutory reserve	–	–	–	–	–	–	–	6,814	(6,814)	–	–	–
At 31.12.2017 and 1.1.2018	**21,205**	**513,344**	**481**	**1,093**	**10,754**	**14,296**	**3,997**	**11,814**	**(70,787)**	**506,197**	**215,364**	**721,561**
Lapse of share options granted in prior years	–	–	–	–	–	–	(2,398)	–	2,398	–	–	–
Dividend paid to non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(11,716)	(11,716)
Total comprehensive income/(loss) for the year	–	–	–	–	–	1,256	–	–	(26,805)	(25,549)	10,767	(14,782)
Transferred to statutory reserve	–	–	–	–	–	–	–	6,485	(6,485)	–	–	–
At 31.12.2018	**21,205**	**513,344**	**481**	**1,093**	**10,754**	**15,552**	**1,599**	**18,299**	**(101,679)**	**480,648**	**214,415**	**695,063**

1. GENERAL INFORMATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Application of new and amendments to HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as the "Group") has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:-

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

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future period.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The adoption of HKFRS 9 did not have material impact on the classification and measurement of the Group's financial assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Application of new and amendments to HKFRSs *(continued)*

HKFRS 9 "Financial Instruments" *(continued)*

Impairment of financial assets

The Group has two main types of financial assets that are subject to HKFRS 9's new expected credit loss ("ECL") model:-

– Trade debtors; and

– Other financial assets measured at amortised costs (including cash and cash equivalents and other receivables).

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follows:-

Trade debtors

The Group applies HKFRS 9 simplified approach to measuring ECLs which uses a lifetime ECL allowance for all trade debtors.

To measure the ECLs, trade debtors have been grouped based on shared credit risk characteristics and the days past due.

The Group has assessed the ECL model applied to the trade debtors at 1 January 2018 and the change in impairment methodologies did not have any material impact on allowance for impairment of trade debtors calculated under HKAS 39 and the opening loss allowance is not restated in this respect.

Other financial assets measured at amortised cost

Other financial assets at amortised cost include cash and cash equivalents and other receivables. The Group has applied the ECL model to other receivables at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, there was no identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Application of new and amendments to HKFRSs *(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.

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.

Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised 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:–

– When the customer simultaneously receives and consumes the benefits provided by the Group's performance, as the Group performs;

– When the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

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

If the contract terms and the Group's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that goods or services 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. The adoption of HKFRS 15 does not have a significant impact on the Group's financial position and results of operation for the period. There is also no material impact to the Group's accumulated losses at 1 January 2018.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Application of new and amendments to HKFRSs *(continued)*

HKFRS 15 "Revenue from contracts with customers" *(continued)*

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 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. To reflect this change in presentation, contract liabilities, including receipts in advance from customers, with amount of HK$23,396,000 (at 1 January 2018: HK$19,615,000) are now separately presented in the consolidated statement of financial position at 31 December 2018, as a result of the adoption of HKFRS 15.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Application of new and amendments to HKFRSs *(continued)*

HKFRS 15 "Revenue from contracts with customers" *(continued)*

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:-

	Amounts reported in accordance with HKFRS 15 *HK$'000*	Hypothetical amounts under HKASs 18 and 11 *HK$'000*	Difference: Estimated impact of adoption of HKFRS 15 on 2018 *HK$'000*
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:-			
Deposits received, sundry creditors and accruals	(130,072)	(153,468)	23,396
Contract liabilities	(23,396)	–	(23,396)
Line items in the reconciliation of profit before taxation to cash used in operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:–			
Decrease in deposits received, sundry creditors and accruals	(21,465)	(17,684)	(3,781)
Increase in contract liabilities	3,781	–	3,781

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Measurement basis

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

(d) Basis of consolidation

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

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

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

(e) Subsidiaries

Subsidiaries are entities controlled by the Group.

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

(f) Segment reporting

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Foreign currency translation

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

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Such translation differences are reclassified from equity to profit or loss when in which the foreign operation is disposed of.

(h) Property, plant and equipment and depreciation

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

(i) Prepaid land lease payments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Lease

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

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

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

(k) Investment property

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Intangible assets

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

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

(m) Goodwill

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

(n) Credit losses and impairment of assets

i. Credit losses from financial instruments and contract assets

A. Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

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 rate where the effect is material:-

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

— variable financial assets: current effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses and impairment of assets *(continued)*

i. Credit losses from financial instruments and contract assets (continued)

A. Policy applicable from 1 January 2018 (continued)

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.

ECLs are measured on either 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 allowance for trade receivables 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 assessment, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses and impairment of assets *(continued)*

i. Credit losses from financial instruments and contract assets *(continued)*

A. Policy applicable from 1 January 2018 *(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses and impairment of assets *(continued)*

i. *Credit losses from financial instruments and contract assets* *(continued)*

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

Written-off policy

The gross carrying amount of a financial 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.

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). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Credit losses and impairment of assets *(continued)*

ii. Impairment of other non-current assets

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

(o) 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. Inventories are carried at the lower of cost and net realisable value as follows:–

– Water supply and related services

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

– Property development

The cost of properties under development comprises specifically identified cost, including the acquisition cost of land. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Service concession arrangements

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

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

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

The Group recognises the consideration received or receivable in exchange for the construction services rendered as an intangible asset (note 16) as the Group receives a right to charge users of the water supply service.

Service concession arrangements are accounted for as follows if:–

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

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

The Group's rights over the infrastructure

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Service concession arrangements *(continued)*

Consideration received or receivable by the Group for the construction services

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

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

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out in note 2(l).

Construction or upgrade services

Revenue and costs relating to construction and upgrade services are accounted for in accordance to HKFRS 15 "Revenue from contracts with customers". The Group recognised the construction revenue with reference to the fair value of the construction service delivered in the construction phase. The fair value of such services is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin and borrowing rates. Consequently, the Group recognised a profit margin on the construction work by reference to the stage of completion and in accordance with the policy set out in note 2(q).

Operating services

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Construction contracts

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

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Construction revenue is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under HKFRS 15.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

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

(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.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(n)).

(s) Government grants

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 2(n).

(u) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Financial liabilities

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

(w) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed 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.

(x) Share capital

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Income tax

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Income tax *(continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(k), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

(z) Employee benefits

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

(ab) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a service is transferred to the customer 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 excluded value added tax or other sales tax and is after deduction of any trade discounts.

When the Group has implemented the performance obligation in the contract, namely, when the customer acquires controls over relevant goods or services, revenues will be recognized as per transaction prices allocated to such performance obligation. Performance obligation represents the Group's commitment to transfer distinct goods or services to the customer in the contract. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts expected to be refunded to a customer.

For performance obligations to be satisfied over time, the Group recognizes revenue over time by measuring the progress towards completion if one of the following criteria are met: (1) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; (2) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; (3) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ab) Revenue and other income *(continued)*

For performance obligations to be satisfied at a certain point in time, the Group recognises revenue at the time of acquiring control of such goods. In judging if the customer has acquired control of the goods, the Group takes into consideration: (1) the Group has a present right to payment for the goods, as in the customer has a present obligation to payment for the goods; (2) the Group has transferred the legal ownership of the good to the customer, as in the customer has acquired the legal ownership of the good; (3) the Group has transferred physical possession of the good to the customer, as in the customer is in possession of the physical good; (4) the Group has transferred the major risks and rewards of the ownership of the good to the customer, as in the customer has acquired the major risks and rewards of the ownership of the good to the customer; (5) the customer has accepted the good; and (6) other indications that the customer has acquired control of the good.

For each performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards completion, except when progress cannot be reasonably determined. In determination of the progress towards completion in satisfying such obligations, the Group adopts the input method or output method based on the nature of business. When the performance progress cannot be determined, the Group is expected to be reimbursed for the costs already incurred and recognise the revenue based on the costs already incurred until the performance progress can be reasonably determined.

Further details of the Group's revenue and other income recognition policies are as follows:–

(i) Revenue arising from water supply is recognised when the related services are rendered.

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

(iii) Revenue from long-term construction contracts is recognised in accordance with accounting policy as set out in note 2(q).

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ac) 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 a joint venture of the other entity (or an associate or a joint venture of a member of a Group of which the other entity is a member);

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ad) HKFRSs in issue but not yet effective

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards 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.

	Effective for accounting periods beginning on or after
HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKFRS 9, Prepayment features with Negative Compensation	1 January 2019
Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 1 and HKAS 8, Definition of Material	1 January 2020
Amendments to HKFRS 3, Definition of a Business	1 January 2020
Conceptual Framework for Financial Reporting 2018	1 January 2020
HKFRS 17, Insurance Contracts	1 January 2021
Amendments to HKAS 28, Long-term interest in associates and joint ventures	1 January 2019

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 HKFRS 16 which may have an 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 is based on the information currently available to the Group, and further impacts may be identified before the standards 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

HKFRS 16, Leases

HKFRS 16, which upon the effective date will supersede HKAS 17, Leases, and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and interest on the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

At 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating lease of HK$5,261,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the consolidated financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(i) Inventories

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

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

(ii) Depreciation

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

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

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

(iii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cashgenerating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the end of the reporting period was HK$99,037,000 (2017: HK$99,037,000). Details of the impairment loss calculation are provided in note 17 to the consolidated financial statements.

(iv) Estimation of fair value of investment properties

Investment properties were revalued at 31 December 2018 based on the appraised market value by an independent valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amount of investment properties at 31 December 2018 was HK$46,599,000 (2017: HK$50,775,000).

(v) PRC enterprise income tax and deferred tax

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

(vi) Construction contracts

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

4. REVENUE

The Group is principally engaged in investment holding, property investment and development, building management and water supply and related services. Revenue for the year represents revenue recognised from rental and building management service income and water supply and related services income. Disaggregation of revenue from contracts with customers by service lines is as follows:–

	2018 **HK$'000**	2017 HK$'000
Revenue from contracts with customers		
Water supply and related services income	**271,893**	239,595
Construction services of infrastructure under concession arrangement (note)	**(2,624)**	6,518
Revenue from other sources		
Rental and building management service income	**2,640**	2,423
	271,909	248,536

Note:

The amount represents revenue recognised during the construction stage of the service concession period. During the year ended 31 December 2018, changes of estimation of HK$13,292,000 were made when the Group finalised the construction costs with sub-contractors.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 39(a).

5. OTHER INCOME AND GAINS

	2018 HK$'000	2017 HK$'000
Interest on bank deposits	**10,001**	10,755
Government subsidy	**111**	239
Increase in fair value of investment properties	**231**	5,343
Gain on early extinguishment of bank loans	**7,077**	—
Gain on disposal of prepaid land lease premium	**2,067**	—
Reversal of impairment loss on other receivables	**4**	56
Exchange gain	**—**	21,227
Others	**389**	472
	19,880	38,092

6. PROFIT BEFORE INCOME TAX

(a) Finance costs

	2018 HK$'000	2017 HK$'000
Profit before income tax is arrived at after charging/(crediting):–		
Interest on bank loans	**35,344**	32,413
Less: interest capitalised included in property, plant and equipment and other intangible assets (note)	**(7,396)**	(5,973)
Bank charges	**291**	795
	28,239	27,235

Note:

The capitalisation rate was ranged from 5.07% to 5.64% (2017: 5.12% to 5.46%).

6. PROFIT BEFORE INCOME TAX *(continued)*

(b) Other items

	2018 HK$'000	2017 HK$'000
Auditor's remuneration		
— Audit services	**1,096**	1,052
— Other services	**519**	611
	1,615	1,663
Cost of inventories sold	**5,089**	2,678
Staff costs (including directors' remuneration)		
— Salaries and other benefits	**45,502**	39,066
— Pension scheme contributions	**4,440**	3,355
	49,942	42,421
Depreciation	**41,428**	35,181
Impairment loss on debtors	**555**	504
Reversal of impairment loss on other receivables	**(4)**	(56)
Amortisation of intangible assets	**39,249**	16,330
Amortisation of prepaid land lease premium	**846**	733
Minimum operating lease rentals	**3,438**	2,808
Sale proceeds of prepaid land lease premium	**(2,601)**	—
Less: carrying amounts of prepaid land lease premium	**534**	—
Gain on disposal of prepaid land lease premium	**(2,067)**	—
Sale proceeds of property, plant and equipment	**(52)**	(8)
Less: carrying amounts of property, plant and equipment	**125**	25
Loss on disposal of property, plant and equipment	**73**	17
Exchange loss/(gain)	**17,501**	(21,227)
Gain on early extinguishment of bank loans	**(7,077)**	—
Rental income less direct outgoings of HK$1,787,000 (2017: HK$1,494,000)	**(853)**	(929)

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors

Directors' remuneration is as follows:–

	Year ended 31 December 2018					
Name of director	Fees HK$'000	Salaries, allowances and other benefits in kind HK$'000 (note i)	Pension scheme contributions HK$'000	Sub-total HK$'000	Share based payment HK$'000	Total HK$'000
Mr. Zhou Jianhui (note iii)	30	773	9	812	–	812
Mr. Chen Jinyang	60	1,920	–	1,980	–	1,980
Dr. Cheung Wai Bun, Charles, *J.P.*	360	–	–	360	–	360
Mr. Chau Cheuk Wah	60	2,145	18	2,223	–	2,223
Mr. Chao Pao Shu, George	240	–	–	240	–	240
Mr. David Tsoi	240	–	–	240	–	240
Ms. Zhang Haimei	134	1,112	–	1,246	–	1,246
Ms. Zhu Fenglian	60	1,560	–	1,620	–	1,620
Mr. Xuan Zhensheng (note ii)	207	25	–	232	–	232
	1,391	7,535	27	8,953	–	8,953

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

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

(a) Directors *(continued)*

Notes :–

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

ii. Appointed on 23 April 2018.

iii. Retired on 29 June 2018.

No directors waived any emolument during the year.

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, of which four (2017: four) are directors of the Company and the details of their remuneration have already been disclosed above.

The emoluments and designated band of the remaining highest paid individual (2017: one) was as follows:–

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and other benefits in kind	**832**	803
Pension scheme contributions	**18**	18
	850	821

	2018	2017
HK$		
Nil to 1,000,000	**1**	1
1,000,001 to 1,500,000	**–**	—
	1	1

During the year, no share option (2017: Nil) was granted to the above highest paid employees in respect of their services to the Group.

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

8. INCOME TAX EXPENSE

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

The Company's subsidiaries operating in the PRC and Australia are subject to the tax rate at 25% and 30% respectively (2017: PRC at 25% and Australia at 30%).

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

	2018 **HK$'000**	2017 HK$'000
Current tax:		
Current year	**16,008**	15,497
Under/(over)-provision in respect of previous years	**56**	(46)
	16,064	15,451
Deferred taxation (Note 9(a)):		
Current year	**(5,443)**	(125)
	10,621	15,326

8. INCOME TAX EXPENSE *(continued)*

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

2018	**HK HK$'000**	**PRC HK$'000**	**AUS HK$'000**	**Total HK$'000**
(Loss)/profit before income tax	**(32,538)**	**33,223**	**(81)**	**604**
Applicable tax rate (%)	**16.5**	**25**	**30**	**N/A**
Tax on (loss)/profit before income tax, calculated at the applicable tax rate	**(5,369)**	**8,306**	**(24)**	**2,913**
Tax effect of non-deductible expenses in determining taxable profit	**3,709**	**5**	**–**	**3,714**
Tax effect of non-taxable income in determining taxable profit	**(2,124)**	**(2,005)**	**–**	**(4,129)**
Tax effect of unrecognised decelerated depreciation allowance	**28**	**–**	**–**	**28**
Tax effect of unrecognised tax loss	**3,756**	**4,259**	**24**	**8,039**
Under-provision in respect of previous year	**–**	**56**	**–**	**56**
Income tax expense	**–**	**10,621**	**–**	**10,621**

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

9. DEFERRED TAXATION

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

	Impairment loss on debtors HK$'000	Accelerated depreciation allowances of property, plant and equipment and revaluation of investment properties HK$'000	Temporary differences on intangible assets recognised under service concession arrangement HK$'000	Total HK$'000
At 1.1.2017	—	(43,299)	(22,086)	(65,385)
Credited/(charged) to profit or loss – Note 8(b)	—	291	(166)	125
Exchange adjustments	—	(656)	(835)	(1,491)
At 31.12.2017 and 1.1.2018	—	(43,664)	(23,087)	(66,751)
Credited to profit or loss – Note 8(b)	277	1,545	3,621	5,443
Exchange adjustments	(11)	596	538	1,123
At 31.12.2018	**266**	**(41,523)**	**(18,928)**	**(60,185)**

Represented by:–

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**266**	—
Deferred tax liabilities	**(60,451)**	(66,751)
	(60,185)	(66,751)

9. DEFERRED TAXATION *(continued)*

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

	2018 **HK$'000**	2017 HK$'000
Deductible temporary differences – note (i)		
Decelerated tax allowances	**1,115**	760
Unutilised tax losses	**244,026**	204,147
	245,141	204,907
Taxable temporary difference – note (ii)		
Accelerated tax allowances	**(186)**	—
	244,955	204,907

Notes:–

(i) Deductible temporary differences have not been recognised in these consolidated financial statements owing to the absence of objective evidence in respect of availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary difference. The unutilised tax losses accumulated in Hong Kong and Australia amounted to HK$195,271,000 (2017: HK$172,509,000) and HK$80,000 (2017: HK$Nil) respectively can be carried forward indefinitely and the unutilised tax losses accumulated in PRC amounted to HK$48,675,000 (2017: HK$31,638,000) can be carried forward for five years following the year when the losses were incurred.

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

(c) As at 31 December 2018, temporary difference relating to the undistributed profits of the Company's subsidiaries in the PRC was RMB88,989,000 (equivalent to approximately HK$101,305,000) (2017: RMB94,093,000 (equivalent to approximately HK$112,987,000)). The related deferred tax liabilities of approximately HK$5,065,000 (2017: HK$5,649,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of the subsidiaries and the directors have determined that these retained profits are not likely to be distributed in the foreseeable future.

10. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018 (2017: Nil).

11. (LOSS)/EARNINGS PER SHARE

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

	2018	2017
	HK$'000	HK$'000
(Loss)/profit		
(Loss)/profit for the year attributable to shareholders of the Company	**(26,805)**	2,660

	2018	2017
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of calculation of basic (loss)/earnings per share	**2,120,448,858**	2,120,448,858
Effect of diluted potential ordinary shares as a result of the share options granted	**—**	—
Weighted average number of ordinary shares in issue for the purpose of calculation of diluted (loss)/earnings per share	**2,120,448,858**	2,120,448,858

For the year ended 31 December 2018, the computation of diluted loss per share did not assume the conversion of the Company's outstanding share options since their exercise of those share options would result a reduction in loss per share for the year which is regarded as anti-dilutive.

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

12. RETIREMENT BENEFIT COSTS

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

The Group's contribution to such scheme for the year ended 31 December 2018 amounted to HK$186,000 (2017: HK$172,000).

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

The Group's contribution to the state-sponsored retirement plan for the year ended 31 December 2018 amounted to HK$4,254,000 (2017: HK$3,183,000).

13. PROPERTY, PLANT AND EQUIPMENT

	Properties held under medium-term lease HK$'000	Water pipelines HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
For the year ended 31.12.2017									
Opening net book value	91,195	236,955	8,369	1,001	1,277	70	1,731	118,556	459,154
Exchange adjustments	1,132	19,468	579	20	150	–	153	6,957	28,459
Additions	–	184	558	–	610	16	456	55,199	57,023
Transfer from CIP	–	70,227	218	–	821	–	–	(71,266)	–
Transfer from investment properties – Note 15	2,202	–	–	–	–	–	–	–	2,202
Transfer to prepaid land lease premium – Note 14	–	–	–	–	–	–	–	(7,768)	(7,768)
Disposals	–	–	(8)	–	(12)	–	(5)	–	(25)
Depreciation	(6,553)	(24,372)	(2,073)	(889)	(917)	(29)	(348)	–	(35,181)
Acquisition of a subsidiary – Note 32	–	–	–	–	10	–	–	–	10
Closing net book value	87,976	302,462	7,643	132	1,939	57	1,987	101,678	503,874
At 31.12.2017									
Cost	101,724	351,600	11,434	3,200	3,046	431	4,162	101,678	577,275
Aggregate depreciation	(13,748)	(49,138)	(3,791)	(3,068)	(1,107)	(374)	(2,175)	–	(73,401)
Net book value	87,976	302,462	7,643	132	1,939	57	1,987	101,678	503,874

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

	Properties held under medium-term lease HK$'000	Water pipelines HK$'000	Plant and machinery HK$'000	Leasehold improvement HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
For the year ended 31.12.2018									
Opening net book value	87,976	302,462	7,643	132	1,939	57	1,987	101,678	503,874
Exchange adjustments	(1,582)	(16,962)	(460)	(44)	(112)	–	(40)	(3,268)	(22,468)
Additions	–	308	480	1,936	512	–	267	47,411	50,914
Transfer from CIP	16,720	61,674	3,398	–	–	–	–	(81,792)	–
Transfer from investment properties — Note 15	2,446	–	–	–	–	–	–	–	2,446
Disposals	–	(2)	(77)	–	(41)	–	(5)	–	(125)
Depreciation	(6,778)	(30,142)	(2,188)	(964)	(945)	(21)	(390)	–	(41,428)
Closing net book value	98,782	317,338	8,796	1,060	1,353	36	1,819	64,029	493,213
At 31.12.2018									
Cost	118,935	392,870	13,344	4,977	2,578	431	4,240	64,029	601,404
Aggregate depreciation	(20,153)	(75,532)	(4,548)	(3,917)	(1,225)	(395)	(2,421)	–	(108,191)
Net book value	98,782	317,338	8,796	1,060	1,353	36	1,819	64,029	493,213

As at 31 December 2018, the Group's buildings and structure with a net carrying amount of approximately HK$1,110,000 (2017: HK$1,270,000) was in the process of obtaining the construction plan permits, construction commencement permits and construction completion reports. These structures have erected on land for which the relevant land use right certificates have not been obtained by the Group. Based on the legal opinion from the Group's legal advisor, who is a registered law firm in the PRC, the directors of the Group consider that the risk for the structure will be demolished is relatively low and there is no legal obstacle for the Group to obtain the relevant certificates and permits mentioned above. In accordance with the relevant regulations, the directors of the Group estimated the fine of approximately HK$66,000 (2017: HK$70,000) and had made a provision accordingly.

As at 31 December 2018, the Group's construction in progress with a net carrying amount of approximately HK$23,000 (2017: HK$207,000), and its water pipeline with a net carrying amount of approximately HK$115,000 (2017: HK$421,000) was in the process of obtaining the construction plan permits. Based on the legal opinion from the Group's legal advisor, who is a registered law firm in the PRC, the directors of the Group consider that the risks for the structure will be demolished or that the Group will be punished for non-compliance are relatively low and there is no legal obstacle for the Group to obtain the relevant permits mentioned above.

14. PREPAID LAND LEASE PREMIUM

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

	2018 HK$'000	2017 HK$'000
Outside Hong Kong, held under medium-term lease	**29,263**	31,226
Less: Current portion	**(557)**	(693)
Non-current portion	**28,706**	30,533
Representing:–		
Opening net book value	**31,226**	22,313
Transfer from property, plant and equipment — Note 13	**—**	7,768
Transfer from investment properties — Note 15	**488**	667
Disposals	**(534)**	—
Exchange adjustments	**(1,071)**	1,211
Amortisation of prepaid land lease premium	**(846)**	(733)
Closing net book value	**29,263**	31,226

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

15. INVESTMENT PROPERTIES

	HK$'000
At 1.1.2017	44,820
Increase in fair value recognised in the consolidated statement of profit or loss	5,343
Transfer to property, plant and equipment and prepaid land lease premium — Notes 13 and 14	(2,869)
Exchange adjustments	3,481
At 31.12.2017 and 1.1.2018	50,775
Increase in fair value recognised in the consolidated statement of profit or loss	231
Transfer to property, plant and equipment and prepaid land lease premium — Notes 13 and 14	(2,934)
Additions	1,104
Exchange adjustments	(2,577)
At 31.12.2018	**46,599**

15. INVESTMENT PROPERTIES *(continued)*

Notes :–

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

(b) The Group's investment properties were revalued at 31 December 2018. The valuation was carried out by an independent firm of surveyors, Graval Consulting Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. Management had discussed with the surveyors on the valuation assumptions and valuation results when the valuation was performed at the end of the reporting period.

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

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

	Valuation techniques	Unobservable input	Range	Weighted average
Residential properties in PRC	Market comparison approach	Premium (discount) on quality of the buildings	-15% to 15%	-5%
Commercial properties in PRC	Market comparison approach and depreciated replacement cost approach	Premium (discount) on the location of land Premium (discount) on the quality of the buildings and considered of depreciation	-10% to 10%	-5%

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

(f) The Group also applied depreciated replacement cost approach as valuation technique. The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, less deductions for physical deterioration and all relevant forms of obsolescence and optimization, whether arising from physical, functional or economic causes. Actual costs incurred for upgrading of the assets to be appraised will also be considered in this approach.

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

16. INTANGIBLE ASSETS

	(Note (a)) Other intangible asset HK$'000
At 1.1.2017	
Cost	417,998
Accumulated amortisation	(18,569)
Accumulated impairment loss	(1,317)
Net book value	398,112
For the year ended 31.12.2017	
Opening net book value	398,112
Additions	6,518
Amortisation	(16,330)
Exchange adjustments	23,042
Closing net book value	411,342
At 31.12.2017	
Cost	449,182
Accumulated amortisation	(36,423)
Accumulated impairment loss	(1,417)
Net book value	411,342
For the year ended 31.12.2018	
Opening net book value	**411,342**
Additions	**10,668**
Adjustments — Note 16(c)	**(13,292)**
Amortisation	**(39,249)**
Exchange adjustments	**(15,768)**
Closing net book value	**353,701**
At 31.12.2018	
Cost	**428,226**
Accumulated amortisation	**(73,182)**
Accumulated impairment loss	**(1,343)**
Net book value	**353,701**

16. INTANGIBLE ASSETS *(continued)*

Notes : –

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

(b) As at 31 December 2018, land use right held by the Group under service concession arrangement with a net carrying amount of RMB4,022,000 (equivalent to approximately HK$4,579,000) (2017: RMB4,133,000 (equivalent to approximately HK$4,963,000)) was pledged to secure the Group's bank and other borrowings (note 28).

(c) The fair values of construction services provided pursuant to the concession arrangement are subject to management's estimation on the values of services sub-contracted to third parties. During the year ended 31 December 2018, changes of estimation of HK$13,292,000 were made when the Group finalised the construction costs with sub-contractors.

17. GOODWILL

	HK$'000
Cost:–	
At 1.1.2017	90,290
Acquisition of a subsidiary — Note 32	8,747
At 31.12.2017, 1.1.2018 and 31.12.2018	**99,037**

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

	2018 **HK$'000**	2017 HK$'000
Water supply services		
– Qinghui Group	**87,908**	87,908
– Taihe Water	**2,382**	2,382
Financial services	**8,747**	8,747
	99,037	99,037

17. GOODWILL *(continued)*

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

For Qinghui Group under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period (2017: five-year period). A discount factor at a rate of 12.08% (2017: 15.51%) was applied in the value-in-use model. Cash flows beyond the five-year period are extrapolated using 3% (2017: 3%) average growth rate, benchmarked against GDP and inflation rate in China.

For Taihe Water under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the remaining concession periods of 8 years (2017: 9 years). As disclosed in note 16, Taihe Water was granted right by the relevant authority in the PRC to use and operate certain water supply plants located at Qingyuan City for the period of 20 years from 2006 to 2026, pursuant to a concession agreement on a BOT basis. Taking into account the utility nature of water supply business, the oligopolised market of water supply in Qingyuan City, the robust demand of water exceeding supply and the stable city growth in Guangdong Province, the management considers a projection for the entire eight years of the remaining concession period is appropriate. No terminal value was attributed to Taihe Water CGU beyond the eight-year period. A discount factor at a rate of 15.17% (2017: 18.15%) was applied in the value-in-use model.

For financial services segment, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. A discount factor at a rate of 11.83% (2017: 14.21%) was applied in the value-in-use model. Cash flows beyond the five-year period are extrapolated using 3% (2017: 3%) average growth rate, benchmarked against GDP and inflation rate in Hong Kong.

The key assumptions used by the Group for the value-in-use calculations include forecast revenue growth rate and discount rate. Based on the results of the impairment test of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the goodwill as at 31 December 2018 and 2017.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

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

As at 31 December 2018, the Group paid a deposit of approximately HK$13,224,000 (2017: HK$14,249,000) to acquire property, plant and equipment. Capital commitment of such acquisition is disclosed in note 34 to the consolidated financial statements.

19. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Water supply and related services		
– Raw materials	**9,002**	2,276
– Finished goods	**2,678**	2,437
	11,680	4,713
Property development		
– Land held for future development for sale	**12,787**	–
	24,467	4,713

The amount of properties for future development are all located in Australia and expected to be recovered after more than one year is HK$12,787,000 (2017: HK$Nil). All of the other inventories are expected to be recovered within one year.

20. DEBTORS

	2018	2017
	HK$'000	HK$'000
Trade debtors	**26,076**	27,682
Less: loss allowance – Note 20(c)	**(1,881)**	(1,377)
	24,195	26,305

Notes:–

(a) The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with debtors, credit evaluations of customers are performed periodically. Further details on the Group's credit policy and credit risk arising from debtors are set out in note 35(a).

20. DEBTORS *(continued)*

Notes:- *(continued)*

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

	2018	2017
	HK$'000	HK$'000
0 – 6 months	**24,042**	25,150
7 – 12 months	**112**	180
1 – 2 years	**41**	975
	24,195	26,305

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

	2018	2017
	HK$'000	HK$'000
At 1 January	**1,377**	850
Impairment loss recognised	**555**	504
Exchange adjustments	**(51)**	23
At 31 December	**1,881**	1,377

(d) At 31 December 2018, the receivables with a carrying amount of RMB21,090,000 (equivalent to approximately HK$24,009,000) (2017: RMB21,881,000 (equivalent to approximately HK$26,275,000)) were pledged to secure bank loans granted to the Group.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Utilities and deposits	**1,092**	2,539
Prepayments	**1,926**	1,292
Interest receivable	**5**	3,532
Other receivables	**4,728**	3,384
	7,751	10,747
Less: loss allowance on other receivables – Note 21(a)	**(38)**	(45)
	7,713	10,702

Note:–

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

	2018 **HK$'000**	2017 HK$'000
At 1 January	**45**	125
Reversal of impairment loss recognised	**(4)**	(56)
Written off	**–**	(29)
Exchange adjustments	**(3)**	5
At 31 December	**38**	45

22. CASH AND BANK BALANCES

As at 31 December 2018, cash and bank balances of the Group denominated in Renminbi amounted to HK$151,331,000 (2017: HK$134,871,000). Renminbi is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

23. TRADE PAYABLES

	2018 **HK$'000**	2017 HK$'000
An aging analysis of trade payables based on invoice date is set out below:–		
0 – 12 months	**10,606**	33,154

24. PAYABLE TO MERCHANTS

	2018 HK$'000	2017 HK$'000
An aging analysis of payable to merchants based on invoice date is set out below:–		
0 – 12 months	—	—
Over one year	**3,011**	3,017
	3,011	3,017

25. DEPOSITS RECEIVED, SUNDRY CREDITORS AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Deposits received and receipts in advance – Note	**791**	20,485
Accruals	**9,720**	10,030
Sundry creditors	**44,847**	53,667
Construction fee payable	**74,203**	66,534
Other tax payable	**511**	26,529
	130,072	177,245

Note: As a result of the adoption of HKFRS 15, receipts in advance is included in contract liabilities (note 26).

26. CONTRACT LIABILITIES

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. As a result of initial application of HKFRS 15, contract liabilities, including receipts in advance from customers, at 31 December 2018 are separately presented in the consolidated statement of financial position (Note 2(b)).

Revenue that was included in the contract liability balance at the beginning of the reporting period amounting to HK$19,615,000 was recognised in the reporting period.

Movements in contract liabilities:–

	2018 HK$'000
Balance at 1 January	**19,615**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(17,570)**
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year	**22,563**
Exchange adjustment	**(1,212)**
Balance at 31 December	**23,396**

27. AMOUNTS DUE TO RELATED COMPANIES

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

28. BANK AND OTHER BORROWINGS

As at 31 December 2018, the bank and other borrowings were analysed as follows:–

	Note	**2018** **HK$'000**	2017 HK$'000
Bank loans, secured	(a)	**450,294**	706,822
Government loans, unsecured		**1,885**	3,030
		452,179	709,852
Due for payment :–			
— Within one year		**6,687**	344,968
— Within two to five years		**120,263**	101,093
— Over five years		**325,229**	263,791
		452,179	709,852

Note:–

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

	At 31 December **2018** **HK$'000**	 2017 HK$'000
Total banking facilities granted	**910,720**	1,200,800
Less: banking facilities utilised by the Group	**(450,294)**	(706,822)
Unutilised banking facilities	**460,426**	493,978

28. BANK AND OTHER BORROWINGS *(continued)*

Note:– *(continued)*

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

As at 31 December 2018, these banking facilities were secured by :–

i. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB4,022,000 (equivalent to approximately HK$4,579,000) (note 16);

ii. pledge of trade receivables with a carrying amount of RMB21,090,000 (equivalent to approximately HK$24,009,000) (note 20);

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

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

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

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

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

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

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

ii. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB4,133,000 (equivalent to approximately HK$4,963,000) (note 16);

iii. pledge of trade receivables with a carrying amount of RMB21,881,000 (equivalent to approximately HK$26,275,000) (note 20);

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

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

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

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

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

29. SHARE CAPITAL

(a) Share capital

	The Group and the Company	
	Number of shares	HK$'000
Ordinary share of HK$0.01 each		
Authorised:–		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	5,000,000,000	50,000
Issued and fully paid:–		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	**2,120,448,858**	**21,205**

(b) Capital management

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

The Group's equity capital management strategy was to maintain a reasonable proportion in total liabilities and total assets. The Group monitors equity capital on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratios at 31 December 2018 and at 31 December 2017 were as follows:–

	2018	2017
	HK$'000	HK$'000
Total liabilities	**624,832**	966,286
Total assets	**1,380,080**	1,754,598
Gearing ratio	**45.27%**	55.07%

30. SHARE OPTIONS

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

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

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

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

30. SHARE OPTIONS *(continued)*

(a) A summary of the movements of share options granted under the New Share Option Scheme during each of the two years ended 31 December 2018 is as follows:–

			Number of share options		
Date of grant	Exercise period	Exercise price	Outstanding at 1 January 2017, 31 December 2017 and 1 January 2018	Lapsed during the year	Outstanding at 31 December 2018
25 November 2013	25 November 2013 to 11 August 2020	HK$0.465	60,000,000	(20,000,000)	40,000,000

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

	2018		2017	
	Weighted average of exercise price HK$	**Number of options**	Weighted average of exercise price HK$	Number of options
Outstanding at the beginning of the year	**0.465**	**60,000,000**	0.465	60,000,000
Lapsed during the year	**0.465**	**(20,000,000)**	—	—
Outstanding at the end of year	**0.465**	**40,000,000**	0.465	60,000,000
Exercisable at the end of year	**0.465**	**40,000,000**	0.465	60,000,000

There were 20,000,000 share options lapsed during the year ended 31 December 2018.

The options outstanding at 31 December 2018 had an exercise price of HK$0.465 (2017: HK$0.465) and a weighted average remaining contractual life of 1.6 years (2017: 2.6 years).

30. SHARE OPTIONS *(continued)*

(c) Fair value of share options granted

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

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

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

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

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

31. RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:–

	Share premium HK$'000	Capital redemption reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1.1.2017	520,908	481	3,997	(121,214)	404,172
Total comprehensive loss for the year	—	—	—	(15,033)	(15,033)
At 31.12.2017 and 1.1.2018	520,908	481	3,997	(136,247)	389,139
Lapse of share options granted in prior years	—	—	(2,398)	2,398	—
Total comprehensive loss for the year	—	—	—	(34,133)	(34,133)
At 31.12.2018	**520,908**	**481**	**1,599**	**(167,982)**	**355,006**

Notes:–

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

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

(iii) As at 31 December 2018, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK$352,926,000 (2017: HK$384,661,000) subject to the restrictions as stated above.

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

(v) The subsidiary established in the PRC was required by PRC Company Law to appropriate 10% of its statutory after-tax profit to a statutory reserve fund until the balance of the fund reached 50% of share capital and thereafter any further appropriation was optional. The statutory reserve fund could be utilised to offset prior years' losses or to increase share capital on the condition that the statutory reserve fund must be maintained at a maximum of 25% of the share capital after such issuance. During the year, the Board of Directors of the subsidiary resolved to appropriate HK$6,485,000 (2017: HK$6,814,000) from retained profits to statutory reserve fund.

32. ACQUISITION OF A SUBSIDIARY

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

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

	HK$'000
Property, plant and equipment – Note 13	10
Prepayment	16
Cash and bank balances	227
Net assets	253
Goodwill arising on acquisition	
Consideration for acquisition	9,000
Less: Fair value of identifiable net assets acquired	(253)
	8,747
Net cash outflow arising on acquisition	
Cash consideration paid	(9,000)
Less: Cash and bank balances acquired	227
	(8,773)

Acquisition-related costs amounting to HK$140,000 have been recognised as an expense in year 2017, within the "general and administrative expenses" line item in the consolidated statement of profit or loss.

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

The newly acquired business did not contribute any revenue to the Group but resulted in a loss of HK$464,000 to the Group for the period between the date of acquisition and 31 December 2017.

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

33. OPERATING LEASE ARRANGEMENTS

As lessor

As at 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:–

	2018	2017
	HK$'000	HK$'000
Within one year	**1,816**	1,192
After one year but within five years	**1,526**	625
Over five years	**20**	38
	3,362	1,855

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

As lessee

As at 31 December 2018, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:–

	2018	2017
	HK$'000	HK$'000
Within one year	**2,643**	2,908
After one year but within five years	**2,618**	5,238
	5,261	8,146

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

34. CAPITAL COMMITMENTS

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

	2018	2017
	HK$'000	HK$'000
Property, plant and equipment	**51,634**	71,799
Other intangible assets	**53,037**	87,746
	104,671	159,545

35. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS

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

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

(a) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The carrying amounts of trade and other debtors, fixed deposits and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at medium or large-sized listed banks.

Debtors

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

The Group measures loss allowances for debtors 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.

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

(a) Credit risk *(continued)*

***Debtors** (continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for debtors at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
0-6 months	1.13%	24,317	275
7-12 months	42.00%	193	81
1-2 years	70.00%	136	95
Over 2 years	100.00%	1,430	1,430
		26,076	1,881

Expected loss rates are based on actual loss experience over the past 2 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 debtors.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (note 2(n)(i)(B) – policy applicable prior to 1 January 2018). At 31 December 2017, debtors of HK$1,377,000 was determined to be impaired. The aging analysis of debtors that were not considered to be impaired was as follows:

	2017 HK'000
Neither past due nor impaired	25,330
Past due but not impaired	975
	26,305

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

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

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

(b) Liquidity risk

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

Maturities of the non-derivative financial liabilities of the Group at 31 December 2018 were as follows:–

	2018				
	Carrying amount HK$'000	**Total contractual undiscounted cash flows HK$'000**	**Less than 1 year or on demand HK$'000**	**In 2 to 5 years HK$'000**	**Over 5 years HK$'000**
Total amounts of contractual undiscounted obligations:–					
Bank and other borrowings	**452,179**	**591,874**	**30,488**	**203,823**	**357,563**
Trade payables	**10,606**	**10,606**	**10,606**	**—**	**—**
Payable to merchants	**3,011**	**3,011**	**3,011**	**—**	**—**
Sundry creditors and accruals	**129,945**	**129,945**	**129,945**	**—**	**—**
Amounts due to related companies	**46**	**46**	**46**	**—**	**—**
	595,787	**735,482**	**174,096**	**203,823**	**357,563**

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

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

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Carrying amounts of financial assets and financial liabilities at 31 December 2018 exposed to currency risk were as follows:-

	2018 **HK$'000**	2017 HK$'000
Financial assets denominated in foreign currencies:-		
Deposits and other receivables	**166**	3,662
Fixed deposits	**44,536**	—
Pledged time deposit	—	291,239
Cash and bank balances	**2,044**	19,621
	46,746	314,522
Financial liabilities denominated in foreign currencies:-		
Payable to merchants	**(126)**	(133)
	(126)	(133)
Net financial assets exposed to currency risk	**46,620**	314,389

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

	2018 **HK$'000**	2017 HK$'000
Australian dollars	**1**	12,201
United States dollars	**1,519**	1,516
Renminbi	**45,100**	300,672
	46,620	314,389

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

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

(c) Currency risk *(continued)*

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

Since Hong Kong dollars is pegged to United States dollars, material fluctuations in the exchange rates of Hong Kong dollars against United States dollars are remote. Should Hong Kong dollars at 31 December 2018 devalue by 10% against all foreign currencies except United States dollars, the carrying amount of the net financial assets of the Group exposed to currency risk at 31 December 2018 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates" would be increased, and hence the equity at 31 December 2018 would be increased by HK$4,510,000 (2017: HK$31,287,000); and loss for the year ended 31 December 2018 would be decreased by HK$4,510,000 (2017: profit for the year would be increased by HK$31,287,000).

(d) Market price risk

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

The Group has no significant exposure to market price risk.

(e) Interest rate risk

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

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

(e) Interest rate risk *(continued)*

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

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 31 December 2018 and 2017:–

	At 31 December 2018		At 31 December 2017	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Fixed rate financial assets				
Fixed deposits	**1.4%-2.7%**	**122,135**	1.0%–1.35%	80,716
Pledged time deposit	**N/A**	**—**	4.35%	291,239
Fixed rate financial liabilities				
Bank and other borrowings	**N/A**	**—**	5.66%	(287,092)
Variable rate financial assets				
Bank balances	**0.01%-0.35%**	**142,224**	0.01%–0.35%	146,760
Variable rate financial liabilities				
Bank and other borrowings	**3.3%-5.39%**	**(452,179)**	3.3%–5.39%	(422,760)
		(187,820)		(191,137)

It is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, the Group's loss for the year ended 31 December 2018 would be increased (2017: profit for the year would be decreased) and respective accumulated losses would be increased (2017: increased) by approximately HK$2,320,000 (2017: HK$2,055,000).

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

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

(f) Fair values

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 2017.

36. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Apart from the transaction as disclosed in notes 27 and 28 to the financial statements, the Group had other material transaction with its related party during the year as following:–

Particulars	Relationship	2018 HK$'000	2017 HK$'000
Rental income	Common shareholder	**611**	611
	Related party	**281**	956
Water testing service income	Related party	**114**	695
Water supply related installation and maintenance income	Related party	**1,491**	2,922

(b) Key management compensation

	2018 HK$'000	2017 HK$'000
Fees for key management personnel	**1,391**	600
Salaries, allowances and other benefits in kind	**8,694**	8,150
Pension scheme contributions	**101**	78
	10,186	8,828

37. CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liabilities.

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

The table below details changes in the Group's liabilities and related assets arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Pledged time deposit HK$'000	Bank and other borrowings HK$'000	Total HK$'000
At 1 January 2017	(262,898)	710,371	447,473
Changes from financing cash flows:			
Increase in pledged time deposit	(284,643)	—	(284,643)
Release of pledged time deposit	262,898	—	262,898
Proceeds from new bank loans	—	272,659	272,659
Interest paid	—	(34,228)	(34,228)
Repayment of bank loans	—	(336,703)	(336,703)
Total changes from financing cash flows	(284,643)	612,099	327,456
Exchange adjustments	—	65,340	65,340
Other changes:			
Unrealised exchange gain	(6,596)	—	(6,596)
Interest expenses	—	26,440	26,440
Capitalised borrowing costs	—	5,973	5,973
At 31 December 2017 and 1 January 2018	(291,239)	709,852	418,613
Changes from financing cash flows:			
Release of pledged time deposit	**291,239**	**–**	**291,239**
Proceeds from new bank loans	**–**	**264,942**	**264,942**
Interest paid	**–**	**(35,814)**	**(35,814)**
Repayment of bank loans	**–**	**(471,015)**	**(471,015)**
Total changes from financing cash flows	**–**	**467,965**	**467,965**
Exchange adjustments	**–**	**(44,053)**	**(44,053)**
Other changes:			
Interest expenses	**–**	**27,948**	**27,948**
Capitalised borrowing costs	**–**	**7,396**	**7,396**
Gain on early extinguishment of bank loans	**–**	**(7,077)**	**(7,077)**
At 31 December 2018	**–**	**452,179**	**452,179**

39. SEGMENT REPORTING

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

The Group has presented the following two reportable segments.

(a) Water supply and related services

This segment engaged in supply of tap water to various districts of Qingyuan City, Guangdong Province. The water supply business currently operates three water treatment plants, which source raw water from local river sources.

(b) Properties investment and development

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

"Others" refers to the supporting units of Hong Kong operation and the net results of other subsidiaries in Hong Kong and overseas. These "other" operating units have not been aggregated to form a reportable segment.

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as including investment income. To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments such as other head office or corporate administration costs.

39. SEGMENT REPORTING *(continued)*

(a) Segments results, assets and liabilities

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

	Reportable Segments							
	Water supply and related services		Properties investment and development		Others		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Disaggregated by timing of revenue recognition								
Point in time	**17,043**	15,745	**—**	—	**—**	—	**17,043**	15,745
Over time	**252,718**	230,758	**2,148**	2,033	**—**	—	**254,866**	232,791
Reportable segment revenue	**269,761**	246,503	**2,148**	2,033	**—**	—	**271,909**	248,536
Reportable segment profit/(loss)	**68,162**	68,646	**(4,114)**	(3,401)	**(45,548)**	(14,445)	**18,500**	50,800
Interest on bank deposits							**10,001**	10,755
Government subsidy							**111**	239
Increase in fair value of investment properties							**231**	5,343
Finance costs							**(28,239)**	(27,235)
Profit before income tax							**604**	39,902
Income tax expense							**(10,621)**	(15,326)
(Loss)/profit for the year							**(10,017)**	24,576
Attributable to:								
— Shareholders of the Company							**(26,805)**	2,660
— Non-controlling interests							**16,788**	21,916
							(10,017)	24,576
Depreciation for the year	**39,464**	33,125	**1,501**	1,097	**463**	959	**41,428**	35,181
Amortisation	**39,713**	16,681	**382**	382	**—**	—	**40,095**	17,063
Capital expenditure incurred during the year	**59,769**	63,488	**2,915**	—	**2**	53	**62,686**	63,541
Reportable segment assets	**1,118,265**	1,164,464	**106,106**	100,096	**155,709**	490,038	**1,380,080**	1,754,598
Unallocated assets							**266**	—
Total assets							**1,380,346**	1,754,598
Reportable segment liabilities	**606,645**	630,470	**1,074**	288,380	**11,591**	43,801	**619,310**	962,651
Unallocated liabilities							**65,973**	70,386
Total liabilities							**685,283**	1,033,037

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

39. SEGMENT REPORTING *(continued)*

(b) Geographical information

	PRC		Hong Kong/overseas		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment revenue	**271,909**	248,536	**—**	—	**271,909**	248,536
Non-current assets	**1,021,038**	1,095,908	**13,442**	13,902	**1,034,480**	1,109,810

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

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**216**	506
Interests in subsidiaries		**581,422**	296,814
		581,638	297,320
CURRENT ASSETS			
Deposits, prepayments and other receivables		**2,269**	5,103
Fixed deposits		**98,618**	62,062
Pledged time deposit		**—**	291,239
Cash and bank balances		**6,978**	94,270
		107,865	452,674
DEDUCT:–			
CURRENT LIABILITIES			
Sundry creditors and accruals		**2,742**	2,746
Amounts due to subsidiaries		**310,550**	336,904
		313,292	339,650
NET CURRENT (LIABILITIES)/ASSETS		**(205,427)**	113,024
NET ASSETS		**376,211**	410,344
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	29(a)	**21,205**	21,205
Reserves	31	**355,006**	389,139
TOTAL EQUITY		**376,211**	410,344

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The details of the principal subsidiaries at 31 December 2018 are as follows:-

Name of company	Place of incorporation/establishment and operation	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Group's effective interest	Principal activities
Universal Cyberworks International Limited	British Virgin Islands	2 ordinary shares of US$1 each	100% (2017: 100%)	–	100% (2017: 100%)	Investment holding
Universal Property Holdings Limited	Hong Kong	HK$10,000	–	100% (2017: 100%)	100% (2017: 100%)	Investment holding
Hooray Asset Management Limited	Hong Kong	HK$4,640,000	–	100% (2017: 100%)	100% (2017: 100%)	Provision of investment advisory services
Wayland Asia Pacific Estate Pty Ltd	Australia	AUD100	–	100% (2017: 100%)	100% (2017: 100%)	Estate development
Shenzhen Huanye Universal Technologies Limited *	People's Republic of China	RMB85,000,000	–	100% (2017: 100%)	100% (2017: 100%)	Investment holding
Qinghui Properties Limited (note)	People's Republic of China	RMB410,000,000	–	49% (2017: 49%)	49% (2017: 49%)	Investment holding
Dongguan Xinhongcheng Enterprise Management Company Limited	People's Republic of China	RMB15,000,000	–	49% (2017: 49%)	49% (2017: 49%)	Investment holding
Qingyuan Jingyu Properties Company Limited	People's Republic of China	RMB1,000,000	–	49% (2017: 49%)	49% (2017: 49%)	Properties investment
Qingyuan Jinhong Industrial Company Limited	People's Republic of China	RMB1,000,000	–	49% (2017: 49%)	49% (2017: 49%)	Properties investment
Qingyuan Kaipeng Properties Company Limited	People's Republic of China	RMB1,000,000	–	49% (2017: 49%)	49% (2017: 49%)	Properties investment
Qingyuan Water Supply Development Company Limited ("Water Supply Development")	People's Republic of China	RMB98,521,440	–	49% (2017: 49%)	49% (2017: 49%)	Provision of water supply business
Qingyuan Jincheng Water Testing Company Limited	People's Republic of China	RMB1,600,000	–	49% (2017: 49%)	49% (2017: 49%)	Provision of water quality testing service

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

Name of company	Place of incorporation/establishment and operation	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Group's effective interest	Principal activities
Qingyuan Qingxin District Huike Properties Company Limited	People's Republic of China	RMB2,000,000	–	49% (2017: 49%)	49% (2017: 49%)	Investment holding
Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Water")	People's Republic of China	RMB23,254,000	–	49% (2017: 49%)	24.99% (2017: 24.99%)	Provision of water supply business

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

Note:–

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

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

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

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

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

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

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

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

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

	2018		2017	
	Water Supply Development	**Taihe Water**	Water Supply Development	Taihe Water
NCI Percentage	**51%**	**75.01%**	51%	75.01%

	2018		2017	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Current assets	**184,205**	**32,554**	152,968	38,700
Non-current assets	**429,031**	**281,558**	439,725	332,019
Current liabilities	**(103,683)**	**(56,242)**	(175,392)	(96,183)
Non-current liabilities	**(309,588)**	**(148,364)**	(211,219)	(158,346)
Net assets	**199,965**	**109,506**	206,082	116,190
Carrying amount of NCI	**101,982**	**82,140**	105,102	87,154

	2018		2017	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Revenue	**214,567**	**78,462**	190,808	71,445
Profit/(loss) for the year	**38,524**	**(671)**	36,183	6,338
Other comprehensive (loss)/income	**(10,893)**	**(6,013)**	13,627	7,946
Total comprehensive income/(loss) for the year	**27,631**	**(6,684)**	49,810	14,284
Profit/(loss) allocated to NCI	**19,647**	**(503)**	18,453	4,754
Cash flows generated from operating activities	**63,319**	**10,222**	68,149	1,989
Cash flows (used in)/generated from investing activities	**(50,895)**	**2,805**	(62,072)	(6,313)
Cash flows generated from/(used in) financing activities	**20,292**	**(18,261)**	(93,208)	(20,025)

42. EVENTS AFTER THE REPORTING PERIOD

*(i) Proposed acquisition of Chevalier Earth Group Limited (the "**Target Company**")*

On 15 February 2019, the Company entered into an agreement with Billion Eminence Investment Limited (the "**Vendor**"), pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase from the Vendor, the entire issued share capital of the Target Company and the corresponding shareholders' loans for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400), details of which were set out in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019.

*(ii) Proposed rights issue (the "**Rights Issue**")*

In relation to the proposed acquisition mentioned in note (i) above, the board of directors of the Company proposed to raise gross proceeds of up to approximately HK$975.41 million (before expenses) on the basis of two (2) rights shares for every one (1) share held on 24 April 2019 (or such other date as may be determined by the Company) by issuing up to 4,240,897,716 Rights Shares (assuming no further issue or repurchase of Shares on or before the Record Date) at the Subscription Price of HK$0.23 per Rights Share, details of which were set out in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019.

*(iii) Proposed placing of new shares under specific mandate (the "**Placing**")*

On 15 February 2019 (after trading hours), the Company and Celestial Capital Limited, Yue Xiu Securities Company Limited and Fulixin Securities Limited (collectively, the "**Placing Agents**") entered into the placing agreement, pursuant to which the Placing Agents conditionally agreed to effect the Placing by procuring no less than six placees to subscribe for such number of placing shares as is equivalent to the number of untaken Shares during the Rights Issue at the Placing Price of HK$0.23 per Share on a best effort basis, details of which were set out in the Company's announcement dated 17 February 2019 and the Company's circular dated 22 March 2019.

Five Years Financial Summary

For the year ended 31 December 2018

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**271,909**	248,536	444,347	224,417	317,148
(Loss)/profit for the year	**(10,017)**	24,576	(4,700)	(62,548)	37,734
Attributable to:					
Shareholders of the Company	**(26,805)**	2,660	(25,171)	(44,412)	32,694
Non-controlling interests	**16,788**	21,916	20,471	(18,136)	5,040
	(10,017)	24,576	(4,700)	(62,548)	37,734

ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**1,034,746**	1,109,810	1,027,836	1,143,297	178,823
CURRENT ASSETS	**345,600**	644,788	733,414	1,291,154	1,131,325
DEDUCT:					
CURRENT LIABILITIES	**179,340**	601,402	604,471	1,236,394	552,489
NET CURRENT ASSETS	**166,260**	43,386	128,943	54,760	578,836
	1,201,006	1,153,196	1,156,779	1,198,057	757,659
DEDUCT:					
NON-CURRENT LIABILITIES	**(505,943)**	(431,635)	(463,561)	(313,016)	(1,401)
NET ASSETS	**695,063**	721,561	693,218	885,041	756,258