



TECHNOLOGIES
UNIVERSAL

Universal Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1026



Annual Report 2019



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Highlights of the Year

- Revenue for the year ended 31 December 2019 amounted to HK\$303.60 million (2018: HK\$271.91 million), representing an increase of HK\$31.69 million or 12% as compared to last year. Such increase was mainly due to (a) increase in revenue of the Group's water supply business; and (b) rental income from the newly acquired Guangzhou properties.
- Net loss attributable to shareholders of the Company for the year ended 31 December 2019 was HK\$116.63 million (2018: HK\$26.81 million), representing an increase of HK\$89.82 million as compared with the year ended 31 December 2018. The Group's loss for the year was principally due to: (a) the impairment loss of the goodwill of the Group's businesses of water supply services and financial services; and (b) the increase in amortisation of intangible assets of the Taihe water plant.
- Basic and diluted loss per share for the year ended 31 December 2019 amounted to HK2.96 cents and HK2.96 cents, respectively (Basic and diluted loss per share for the year ended 31 December 2018: HK1.26 cents and HK1.26 cents, respectively).
- The Board of Directors does not recommend payment of any dividend for the year ended 31 December 2019 (2018: HK\$Nil).

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Chen Jinyang (*Chairman and appointed as Chief Executive Officer on 3 June 2019*)

Zhu Fenglian

Zhang Haimei

Non-Executive Director:

Xuan Zhensheng

Chau Cheuk Wah (*resigned as Chief Executive Officer on 2 June 2019 and re-designated from executive director to non-executive director on 3 June 2019*)

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

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REGISTERED OFFICE

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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 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 2019.

REVIEW

In 2019, the Group recorded revenue of HK\$303,598,000, representing an increase of approximately 12% compared with the revenue of HK\$271,909,000 in the previous year. The increase was mainly due to the increase in revenue of the Group's water supply business and the rental income from the newly acquired Guangzhou properties for the year. Notwithstanding the increase in revenue from the principal business of the Group, the Group recorded net loss attributable to shareholders of the Company of HK\$116,634,000, representing an increase of HK\$89,829,000 as compared to the net loss attributable to shareholders of the Company of HK\$26,805,000 in the previous year, principally due to the impairment loss of the goodwill of the Group's businesses of water supply services and financial services and the increase in amortisation of intangible assets.

During the year under review, the worldwide economic outlook was unfavourable due to the fears of global economic recession resulted from the US-China trade tension and the fluctuations in oil prices and financial markets. To tackle the uncertainties, the Group continued to optimize its existing businesses while exploring investment opportunities. In 2019, the Group acquired a shopping mall at a prime location in Guangzhou, a first-tier city in China, with the view to generating a stable rental income and strengthening the Group's revenue and asset bases. The Group also launched a rights issue and placing to raise funds to finance the acquisition and other investments with synergy with the Group's existing businesses.

PROSPECTS

In January 2020, the Group entered into a joint venture agreement with a joint venture partner to participate in land auctions and property development in the Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The joint venture project enables the Company to leverage on a larger scale of capital and development, achieving a greater economy of scale.

With the COVID-19 pandemic and the continual fluctuations of oil prices and financial markets in 2020, global economic outlook is expected to be more uncertain and less optimistic than in 2019, which may adversely affect the Group's operating and financial performances. However, we believe that adversity will eventually reverse to prosperity. To diversify our income stream and maintain sustainable growth, the Company will exercise prudence in its internal resources while identifying and evaluating investment opportunities with potential long-term benefits for the Group.

Leveraging on our solid asset basis, sound financial management and high enterprise efficiency and with the building of a talent reserve system, the Group is positioned to seek out opportunities for development and investment with the view of creating value for shareholders.

I would like to take this opportunity to express my gratitude to the Board, the senior management and our staff for their commitment, efforts, team spirit and contributions to the Group.

Chen Jinyang

Chairman and Chief Executive Officer

Hong Kong, 25 March 2020

Management Discussion and Analysis

FINANCIAL OVERVIEW

Revenue and loss for the year

During the current fiscal year, the Group recorded a revenue of HK\$303,598,000, representing an increase of 12% or HK\$31,689,000 as compared with the last fiscal year. Loss attributable to shareholders of the Company for the year ended 31 December 2019 was HK\$116,634,000, representing an increase of HK\$89,829,000 as compared to the last fiscal year. Increase in revenue was mainly attributable to the water supply business and rental income from the newly acquired mall properties. The loss for the year was principally due to: (a) the impairment loss of the goodwill of the Group's businesses of water supply services and financial services; and (b) the increase in amortisation of intangible assets of the Taihe water plant.

Impairment loss on goodwill

During the current fiscal year, the Group recorded an impairment loss on goodwill in the amount of HK\$99,037,000, representing an increase of HK\$99,037,000 as compared to the last fiscal year. The increase of impairment loss on goodwill was mainly attributable to the Group's businesses of water supply services and financial services.

Cost of sales/services rendered

During the current fiscal year, the Group recorded a cost of sales/services rendered in the amount of HK\$237,661,000, representing an increase of HK\$50,311,000 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\$9,946,000, representing a decrease of 50% as compared with the last fiscal year. The decrease in other income and gains was mainly attributable to the non-recurrence in 2019 of the gain on early extinguishment of bank loans in the amount of HK\$7,077,000 for the year ended 31 December 2018, and the decrease in bank interest income for the current year under review.

General and administrative expenses

During the current fiscal year, the Group recorded general and administrative expenses of HK\$65,772,000, representing a decrease of 13% as compared with the last fiscal year. During the current fiscal year, general and administrative expenses decreased in terms of exchange loss and other expenses.

Finance costs

During the current fiscal year, the Group recorded finance costs of HK\$24,260,000, representing a decrease of 14% as compared with the last fiscal year, which was principally due to the partial repayment of a loan by the Group during the year.

Management Discussion and Analysis

FINANCIAL OVERVIEW *(continued)*

Income tax expense

During the current fiscal year, the Group recorded an income tax expense of HK\$3,516,000, representing a decrease of 67% 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\$22,163,000 from HK\$493,213,000 as at 31 December 2018 to HK\$471,050,000 as at 31 December 2019. 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\$1,166,000 from HK\$29,263,000 as at 31 December 2018 to HK\$28,097,000 as at 31 December 2019. The decrease was mainly due to the amortisation during the current fiscal year.

Investment properties

The Group's investment properties increased by HK\$644,477,000 from HK\$46,599,000 as at 31 December 2018 to HK\$691,076,000 as at 31 December 2019. It was mainly attributable to the acquisition of certain commercial-use properties in Guangzhou during the current fiscal year.

Right-of-use assets

The Group's right-of-use assets increased by HK\$2,484,000 from HK\$nil as at 31 December 2018 to HK\$2,484,000 as at 31 December 2019. The increase was mainly due to the capitalisation of lease under the new HKFRSs which came into effect on 1 January 2019.

Intangible assets

The Group's intangible assets decreased by HK\$26,204,000 from HK\$353,701,000 as at 31 December 2018 to HK\$327,497,000 as at 31 December 2019. The decrease was mainly due to the amortisation for the current fiscal year.

Goodwill

The Group's goodwill decreased by HK\$99,037,000 from HK\$99,037,000 as at 31 December 2018 to HK\$nil as at 31 December 2019. The decrease was due to the impairment loss on the Group's businesses of water supply services and financial services for the current fiscal year.

Inventories

The Group's inventories increased by HK\$3,813,000 from HK\$24,467,000 as at 31 December 2018 to HK\$28,280,000 as at 31 December 2019. The increase was mainly due to the increase in purchase of material for water pipeline construction projects for water supply, partly offset by the decrease in the net realisable value of an overseas freehold land stated as inventory.

Management Discussion and Analysis

FINANCIAL OVERVIEW *(continued)*

Debtors

The Group's debtors increased by HK\$4,140,000 or 17% from HK\$24,195,000 as at 31 December 2018 to HK\$28,335,000 as at 31 December 2019. The increase in debtors was attributable to increase in water supply volume during the year.

Deposits, prepayments and other receivables

The Group's deposits, prepayments and other receivables increased by HK\$3,239,000 from HK\$7,713,000 as at 31 December 2018 to HK\$10,952,000 as at 31 December 2019. The increase was mainly attributable to increase in other receivables from water supply and related business and properties investment and development business.

Cash and bank balances and fixed deposits

The Group's cash and bank balances and fixed deposits increased by HK\$444,793,000 from HK\$288,668,000 as at 31 December 2018 to HK\$733,461,000 as at 31 December 2019. The increase in cash and bank balances and fixed deposits was mainly due to the proceeds raised from Rights Issue and Placing and additional bank loans obtained by the water supply business in current year. As at 31 December 2019, 89% (31 December 2018: 91%) of cash and bank balances was denominated in Renminbi.

Bank and other borrowings

The Group's bank and other borrowings increased by HK\$229,487,000 from HK\$452,179,000 as at 31 December 2018 to HK\$681,666,000 as at 31 December 2019. The increase was mainly attributable to the additional bank loans obtained by the water supply business for the current fiscal year.

Trade payables

The Group's trade payable increased by HK\$22,280,000 from HK\$10,606,000 as at 31 December 2018 to HK\$32,886,000 as at 31 December 2019. The increase of trade payables was due to increase in inventories level and the accrual of more water resources fee for the current fiscal year.

Payable to merchants

The Group's payable to merchants as at 31 December 2019 amounted to approximately HK\$3,011,000, which is similar to the figure as at 31 December 2018.

Deposits received, sundry creditors and accruals

The Group's deposits received, sundry creditors and accruals increased by HK\$55,925,000 from HK\$130,072,000 as at 31 December 2018 to HK\$185,997,000 as at 31 December 2019. The increase was mainly attributable to the consideration payables for the acquisition of Guangzhou properties during the year.

Management Discussion and Analysis

FINANCIAL OVERVIEW *(continued)*

Contract liabilities

The Group's contract liabilities increased by HK\$20,170,000 from HK\$23,396,000 as at 31 December 2018 to HK\$43,566,000 as at 31 December 2019. The increase was mainly due to the increase in contract income of the Group's water supply and related business during the year.

Lease liabilities

The Group's lease liabilities increased by HK\$2,547,000 from HK\$nil as at 31 December 2018 to HK\$2,547,000 as at 31 December 2019. The increase was mainly due to the new way of lease accounting under the new HKFRSs which came into effect on 1 January 2019.

Events after the reporting period

(i) Discloseable transaction regarding the formation of a joint venture

On 14 January 2020, Shenzhen Huanye Universal Technologies Limited ("**Listco Subsidiary**"), an indirect wholly-owned subsidiary of the Company and Dongguan Zhaoyu Real Estate Co., Ltd. (the "**JV Partner**") entered into the joint venture agreement ("**JV Agreement**"), pursuant to which the Listco Subsidiary and the JV Partner (the "**JV Parties**") agreed to jointly establish the joint venture to participate in land auctions and property development in Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The JV Parties intended to establish a new project company (the "**JV Company**") to become the vehicle of the Joint Venture, which shall be owned as to 30% by Listco Subsidiary and 70% by the JV Partner. Under the terms of the JV Agreement, the maximum contribution committed by Listco Subsidiary in the JV Company is capped at RMB219,000,000 (equivalent to approximately HK\$245,241,000).

As the applicable percentage ratios as calculated under Rule 14.06 of the Listing Rules in respect of the formation of the joint venture under the JV Agreement are more than 5% but less than 25%, the transactions contemplated by the JV Agreement constitute a discloseable transaction for the Company and are subject to the reporting and announcement requirements but exempt from shareholders' approval requirement under Chapter 14 of the Listing Rules.

(ii) Cessation of water intake by a water plant operated by a 49%-owned subsidiary of the Group

On 3 March 2020, Qingyuan Water Supply Development Co., Ltd. ("**Water Supply Development**"), a 49%-owned subsidiary of the Group, received a cessation notice issued by the Water Resources Bureau of Qingyuan City (the "**Bureau**"), pursuant to which the Bureau notified Water Supply Development of the decision of the People's Government of Qingyuan City (the "**Qingyuan Government**") to stop the water intake of Qixinggong Water Plant operated by Water Supply Development with effect from 4 March 2020 and to commence full water intake of another water plant designated by Qingyuan Government. Further details regarding the Cessation Notice were disclosed in the Company's announcement dated 3 March 2020.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had net current assets of HK\$491,142,000. Current assets comprised inventories of HK\$28,280,000, debtors of HK\$28,335,000, deposits, prepayments and other receivables of HK\$10,952,000, fixed deposits of HK\$248,754,000 and cash and bank balances of HK\$484,707,000.

Current liabilities comprised bank and other borrowings of HK\$36,662,000, trade payables of HK\$32,886,000, payable to merchants of HK\$3,011,000, lease liabilities of HK\$2,519,000, deposits received, sundry creditors and accruals of HK\$185,997,000, contract liabilities of HK\$43,566,000, amounts due to related companies of HK\$45,000, and tax payable of HK\$5,200,000.

The gearing ratio, which is defined as a percentage of the total liabilities (excluding deferred tax liabilities) over the total assets (excluding deferred tax assets), of the Group as at 31 December 2019 was 41% (2018: 45%).

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

BUSINESS REVIEW

During the year ended 31 December 2019, the Group was principally engaged in the business of water supply and related services as well as property investment and development. Revenue from the main business amounted to approximately HK\$303,598,000, representing an increase of 12% or approximately HK\$31,689,000 compared with revenue of approximately HK\$271,909,000 from the previous year. Water supply and related business (including water quality testing, water pipe repair and maintenance, water meter maintenance and replacement and other related services) recorded revenue of approximately HK\$290,461,000, representing an increase of 8% or approximately HK\$20,700,000 compared with revenue of approximately HK\$269,761,000 from the previous year. This was mainly attributed to increased demand for water supply as a result of urban development.

During the year, the property investment and development segment of the Group contributed a stable revenue and positive cash flow to the Group. The property investment and development segment of the Group recorded revenue of approximately HK\$13,137,000, representing an increase of 512% or approximately HK\$10,989,000 compared with approximately HK\$2,148,000 in revenue from the previous year. Rental income increased due to rental income gained from PRC commercial properties acquired during the year.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS *(continued)*

BUSINESS REVIEW *(continued)*

As disclosed in the Company's announcement dated 15 February 2019, the Company acquired certain PRC commercial properties (the "**Acquisition**") at a consideration of RMB576,000,000, financed by a two-for-one rights issue (the "**Rights Issue**") and a best-effort placing (the "**Placing**") of shares that had not been taken up during the Rights Issue. As disclosed in the Company's announcement dated 18 June 2019, 1,805,909,900 shares were taken up by qualifying shareholders under the Rights Issue and 1,586,400,000 shares were placed under the Placing, raising net proceeds in the aggregate amount of approximately HK\$767.99 million. Of this, approximately HK\$574.63 million was used for the settlement of the consideration for the Acquisition upon the completion. The Acquisition was approved by the independent shareholders of the Company on 23 April 2019 and was completed during the year.

For the year ended 31 December 2019, the Group recorded a net loss attributable to shareholders of the Company of approximately HK\$116,634,000, representing an increase of approximately 335% or HK\$89,829,000 as compared to the previous year's net loss attributable to shareholders of approximately HK\$26,805,000. The increase in the loss for the year of the Group was mainly attributed to: (a) the impairment loss of the goodwill of the Group's water supply services and financial services, and (b) the increase in amortisation of intangible assets of the Taihe Water Plant.

The Group is dedicated to maintaining high standards of corporate governance and internal control, while continuously improving management efficiency and effectiveness. The Group pursued improvements to corporate culture, systems efficiency, branding and human resources planning with a view to enhancing competitiveness, strengthening core competencies and maintaining a high degree of social responsibility. As part of the Group's environmental, social and governance initiatives, it provided training and equal opportunities to staff for the cultivation of talent, skills and a sense of belonging within the Group. By implementing these initiatives, the Group hoped to lay a solid foundation for long-term development.

PROSPECTS

Impacted by the tension of US-China trade and political relationship and the impact of the COVID-19 pandemic on the worldwide supply chains and consumption patterns, both oil prices and the global financial market have fluctuated dramatically, and the world's economic prospects were dimming. Looking forward, the Group intends to continue to focus on property investment and development. In addition to identifying suitable property project in China and overseas, the Group also intends to develop its fund investment and management businesses in Hong Kong and China to diversify revenue sources and ensure sustainable growth. The Group will also continue to explore appropriate opportunities for investment and diversified development that may arise from time to time.

Management Discussion and Analysis

EMPLOYEES

As at 31 December 2019, the total number of employees of the Group was 397 (2018: 387). 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) 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, the sale interests of Chevalier Earth Group Limited (the "**Target Company**") 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 proposed Rights Issue and Placing to raise funds to finance the acquisition. The Rights Issue and the Placing were subsequently approved by the independent shareholders of the Company on 23 April 2019. On completion of the Rights Issue and the Placing which took place on 18 June 2019, 1,805,909,900 Rights Shares were allotted and issued and 1,586,400,000 untaken Shares were allotted and issued to placees procured by the placing agents under the Placing. The gross proceeds raised by the Company from the Placing and the Rights Issue amounted to HK\$780,231,277 in aggregate, which was utilised partially for the consideration for the acquisition.

The Group originally intended to use the net proceeds of the Rights Issue and the Placing in the aggregate amount of approximately HK\$767.99 million for the following sequence: (i) approximately HK\$673.29 million for settlement of the Consideration; and (ii) the balance of between approximately HK\$94.70 million for the development of fund investment and management businesses of the Group in Hong Kong and the PRC. On 14 January 2020, approximately HK\$574.63 million was already utilized for settlement of the consideration payable on completion of the Acquisition and net proceeds of the Rights Issue and the Placing in the approximate amount of HK\$193.36 million remained unutilized (the "**Unutilized Proceeds**"). The Company then applied the Unutilized Proceeds to finance the Listco Subsidiary's contribution limit of the joint venture. The Board is of the view that the use of the Unutilized Proceeds in the Listco Subsidiary's contribution limit is in the best interests of the Company and is largely in line with the original purposes of the equity fund-raising, namely, to expand the property development and investment portfolio of the Group and to join force with co-investors with the view to investing in non-controlling interests in bigger projects in China with synergy with the Group's principal business activities (which includes property development and investment).

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS *(continued)*

The Acquisition constituted a major and connected transaction for the Company and was subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules. The Acquisition was approved by the independent shareholders of the Company on 23 April 2019 and completed in 2019.

Save as disclosed above, the Group did not have any other significant investments, acquisitions and disposals for the year ended 31 December 2019.

CHARGES ON GROUP'S ASSETS

The Group's bank loans at 31 December 2019 were secured by:

- (i) charges over a land use right under service concession arrangement with a carrying amount of RMB3,912,000 (equivalent to approximately HK\$4,372,000);
- (ii) pledge of trade receivables with a carrying amount of RMB24,228,000 (equivalent to approximately HK\$27,078,000);
- (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. The Rights Issue and the Placing were subsequently approved by the independent shareholders of the Company on 23 April 2019. On completion of the Rights Issue and the Placing which took place on 18 June 2019, 1,805,909,900 Rights Shares were allotted and issued and 1,586,400,000 untaken Shares were allotted and issued to placees procured by the placing agents under the Placing. The gross proceeds raised by the Company from the Placing and the Rights Issue amount to HK\$780,231,277 in aggregate. Details of the Acquisition, Rights Issue and the Placing were disclosed in the Company's announcements dated 15 February 2019, 23 April 2019 and 18 June 2019 and circular dated 22 March 2019.

Management Discussion and Analysis

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS *(continued)*

The Group originally intended to use the net proceeds of the Rights Issue and the Placing in the aggregate amount of approximately HK\$767.99 million for the following sequence: (i) approximately HK\$673.29 million for settlement of the Consideration; and (ii) the balance of between approximately HK\$94.70 million for the development of fund investment and management businesses of the Group in Hong Kong and the PRC. On 14 January 2020, approximately HK\$574.63 million was already utilized for settlement of the consideration payable on completion of the Acquisition and net proceeds of the Rights Issue and the Placing in the approximate amount of HK\$193.36 million remained unutilized. The Company then applied the Unutilized Proceeds to finance the Listco Subsidiary's Contribution Limit of the joint venture. The Board is of the view that the use of the Unutilized Proceeds in the Listco Subsidiary's Contribution Limit is in the best interests of the Company and is largely in line with the original purposes of the equity fundraising, namely, to expand the property development and investment portfolio of the Group and to join force with co-investors with the view to investing in non-controlling interests in bigger projects in China with synergy with the Group's principal business activities (which includes property development and investment).

On 14 January 2020, Listco Subsidiary and the JV Partner entered into the JV Agreement, pursuant to which the JV Parties agreed to jointly establish the joint venture to participate in land auctions and property development in Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The JV Parties intended to establish a JV Company to become the vehicle of the joint venture, which shall be owned as to 30% by Listco Subsidiary and 70% by the JV Partner. Under the terms of the JV Agreement, the maximum contribution committed by Listco Subsidiary in the JV Company is capped at RMB219,000,000 (HK\$245,241,000).

As the applicable percentage ratios as calculated under Rule 14.06 of the Listing Rules in respect of the formation of the joint venture under the JV Agreement are more than 5% but less than 25%, the transactions contemplated by the JV Agreement constitute a discloseable transaction for the Company and are subject to the reporting and announcement requirements but exempt from shareholders' approval requirement under Chapter 14 of the Listing Rules. Further details regarding the Joint Venture are disclosed in the Company's announcement dated 14 January 2020.

Save as disclosed above, there was no other future plan for material investments or capital assets for the year ended 31 December 2019.

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 2019, 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.

Management Discussion and Analysis

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted but not provided for in the amount of approximately HK\$18,390,000 (2018: HK\$22,003,000) comprising (i) acquisition of property, plant and equipment of approximately HK\$18,373,000 (2018: HK\$21,020,000); and (ii) other intangible assets (as defined under the adopted accounting standards) of approximately HK\$17,000 (2018: HK\$983,000), both of which being in connection with 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 2019.

DISCLOSURE OF CHANGES IN DIRECTOR'S INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B OF THE LISTING RULES

Pursuant to Rule 13.51B of the Listing Rules the changes in the information of the Directors subsequent to the date of the 2018 Annual Report are as follows:

1. On 2 June 2019, Mr. Chau Cheuk Wah completed his Chief Executive Officer (“CEO”) service contract with the Company and indicated his decision of not renewing his CEO service contract further. Mr. Chau was re-designated from an executive Director to a non-executive Director of the Company with effect from 3 June 2019. Mr. Chau is entitled to monthly director's remuneration of HK\$50,000 and discretionary bonus to be determined by the Board.
2. Mr. Chen Jinyang was appointed as the CEO of the Company with effect from 3 June 2019.
3. Ms. Zhu Fenglian has resigned as the director of Dongguan Hongshun Shiye Development Company Limited with effect from 21 August 2019.
4. Mr. Chau Cheuk Wah was appointed as an independent non-executive director, chairman of Nomination Committee and member of Audit Committee and Remuneration Committee of One Media Group Limited (stock code: 0426) with effect from 1 September 2019.
5. On the recommendation by the Remuneration Committee and taking into consideration the position of Mr. Xuan Zhensheng (“Mr. Xuan”) as a Non-Executive Director, the Board approved the increase in Mr. Xuan's monthly director's fee to HK\$50,000 with effect from 3 June 2019.

Save as disclosed above, there are no other changes to the Directors' information that is required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chen Jinyang

Mr. Chen, aged 49, was appointed as an Executive Director, the Chairman of the Board, Chief Executive Officer and an authorized representative of the Group on 18 December 2012, 16 September 2013, 3 June 2019 and 29 October 2015 respectively. Prior to joining the Company, Mr. Chen already had substantial experience and knowledge of banking industry and investment business in the PRC. Mr. Chen is currently a responsible officer and director of Hooray Asset Management Limited, a type-9 licensed corporation and a wholly-owned subsidiary of the Company.

Ms. Zhu Fenglian

Ms. Zhu, aged 55, 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; and (viii) a director of the following companies, namely, Dongguan Jinshun Real Estate Investment Limited, Dongguan Jincheng Real Estate Investment Limited, Dongguan Yuhe Shiye Limited, Dongguan Securities Limited, Zhongshan Securities Co., Ltd., Hooray Securities Limited, Hooray Capital Limited and Hooray Asset Management Limited.

Ms. Zhu is the substantial shareholder of the Company. Ms. Zhu, Affluent Vast and Ever City are deemed to be interested in 1,561,140,000 shares of the Company, representing 28.32% of the total issued share capital of the Company, which comprises (a) 961,140,000 shares directly held by Ever City; and (b) 600,000,000 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 and Senior Management

DIRECTORS *(continued)*

Executive Directors *(continued)*

Ms. Zhang Haimei

Ms. Zhang, aged 52, 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”).

Directors and Senior Management

DIRECTORS *(continued)*

Non-Executive Directors

Mr. Xuan Zhensheng

Mr. Xuan, aged 50, 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.

Mr. Chau Cheuk Wah

Mr. Chau, aged 65, was appointed as the Chief Executive Officer and an Executive Director of the Group on 3 June 2013 and 16 September 2013 respectively. On 2 June 2019, Mr. Chau completed his CEO service contract with the Company and indicated his decision of not renewing his CEO service contract further. On 3 June 2019, Mr. Chau was re-designated from an Executive Director to a Non-Executive Director of the Company. Mr. Chau has 39 years of experience in banking and finance in Hong Kong and China with various global financial institutes. Mr. Chau was graduated from The Chinese University of Hong Kong with a bachelor degree in Business Administration.

Mr. Chau is currently an independent non-executive director, chairman of Nomination Committee and member of Audit Committee and Remuneration Committee of One Media Group Limited (stock code: 0426).

Directors and Senior Management

DIRECTORS *(continued)*

Independent Non-Executive Directors

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

Dr. Cheung, aged 83, 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 (Hong Kong) and A Stock 601727 (Shanghai)); (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 (formerly a listed company in Hong Kong); (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) a 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 and 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 and Senior Management

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. David Tsoi

Mr. Tsoi, aged 72, 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 Allcott, 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 (formerly a listed company in Hong Kong); (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 and Senior Management

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. Chao Pao Shu George

Mr. Chao, aged 73, 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 Company 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 (formerly a listed company in Hong Kong).

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.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Chen Shaofei

Mr. Chen, aged 45, 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 22 years of experience in the water supply industry.

Mr. Zou Xiaowei

Mr. Zou, aged 61, is the legal representative and chairman of Qingyuan 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 40, is the director and general manager of Qingxin District Taihe Water Company Limited, a subsidiary of the Group. Mr. Li resigned from all of the above positions in July 2019. 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 19 years of experience in the water supply industry.

Mr. Lin Haitang

Mr. Lin, aged 30, is the responsible person of Qingyuan Qingxin District Taihe Water Company Limited, a subsidiary of the Group. Mr. Lin graduated from Guangdong University of Petrochemical Technology. Mr. Lin joined Qingyuan Qingxin District Taihe Water Company Limited in August 2019.

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 “CG Code”). The Company has complied with the applicable Code Provisions of the CG Code save for the deviation mentioned below:

During the Year, Mr. Chen Jinyang has been acting as an executive Director, the chairman of the Board as well as the chief executive officer of the Company. This arrangement deviates from the provision of A.2.1 of the CG Code, which provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Directors are of the opinion that the current arrangement will enable stronger leadership for managing the Company and will carry out effective and efficient management and solid business and strategic planning. The Directors believe that the current arrangement does not have a material adverse impact on the corporate governance of the Company.

The Board will carry out a regular review and propose any amendments, if necessary, to ensure compliance with the CG Code provisions as set out in the Listing Rules.

Corporate Governance Report

BOARD OF DIRECTORS

Board Composition

The Board comprises eight Directors, including three Executive Directors, namely, Mr. Chen Jinyang (Chairman and Chief Executive officer), Ms. Zhu Fenglian and Ms. Zhang Haimei; two Non-Executive Director, namely Mr. Xuan Zhensheng and Mr. Chau Cheuk Wah; 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 2019.

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 16 to 21.

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.

Corporate Governance Report

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 2019.

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, annual general meeting and extraordinary general meeting held during the year is set out below:

Directors	Number of meeting attended/held		
	Board meetings	AGM	EGM
Mr. Chen Jinyang	6/6	1/1	1/1
Ms. Zhu Fenglian	6/6	1/1	0/1
Ms. Zhang Haimei	6/6	1/1	1/1
Mr. Xuan Zhensheng	6/6	1/1	1/1
Mr. Chau Cheuk Wah	6/6	1/1	1/1
Dr. Cheung Wai Bun, Charles, <i>J.P.</i> ,	6/6	1/1	1/1
Mr. David Tsoi	6/6	1/1	1/1
Mr. Chao Pao Shu George	6/6	1/1	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;

Corporate Governance Report

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

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.

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 Company does not at present separate roles of the chairman and chief executive officer. Mr. Chen Jinyang is the chairman of the Board and the Chief Executive Officer. The Directors are of the opinion that the current arrangement will enable stronger leadership for managing the Company and will carry out effective and efficient management and solid business and strategic planning. Therefore, the Directors consider that the deviation from Code Provision A.2.1 of the CG Code is appropriate in such circumstance. Notwithstanding from above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

Corporate Governance Report

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 2019.

Corporate Governance Report

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 one meeting for the year ended 31 December 2019. The composition of the remuneration committee during the year as well as the meeting attendance of the committee members are as follows:-

<u>Remuneration Committee</u>	<u>Attendance</u>
Dr. Cheung Wai Bun, Charles, J.P. (<i>Chairman</i>)	1/1
Mr. David Tsoi	1/1
Mr. Chao Pao Shu George	1/1

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 2019 is set out below:

<u>Remuneration bands</u>	<u>Number of individuals</u>
Nil to HK\$1,000,000	4

Corporate Governance Report

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 one meeting for the year ended 31 December 2019. 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 (<i>Chairman</i>)	1/1
Dr. Cheung Wai Bun, Charles, <i>J.P.</i>	1/1
Mr. David Tsoi	1/1

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.

Corporate Governance Report

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.

Corporate Governance Report

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.

Corporate Governance Report

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 80 to 168. 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 2019 are set out in the Independent Auditor's Report on pages 75 to 79.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, 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
	2019 HK\$'000
Statutory audit services	1,151
Other services in connection with the major and connected transaction	250
Review of interim results	533
Taxation services	56
	1,990

Corporate Governance Report

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 2019. 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 (<i>Chairman</i>)	2/2
Dr. Cheung Wai Bun, Charles, <i>J.P.</i>	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

Corporate Governance Report

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.

Environmental, Social and Governance Report

SCOPE AND REPORTING PERIOD

This is the fourth 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.

During the reporting period, the Group acquired Heng Hui Property Investment Limited, whose sole asset is the entire equity interest in Guangzhou Yicheng Investment Holdings Limited. The Group has since acquired the Dongshan Jinxuan Modern Mall (“Dongshan Mall”) in Guangzhou and started providing property leasing services for tenants of the Mall.

This ESG report therefore covers the Group’s overall performance in two subject areas, namely, Environmental and Social of the three major operations of water treatment services, Dongshan Mall, and the headquarters office in Sheung Wan, Hong Kong (the “Headquarters”), hereafter referred as “the Water Plants, Dongshan Mall, and Headquarters”, from 1 January 2019 to 31 December 2019, unless otherwise stated.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

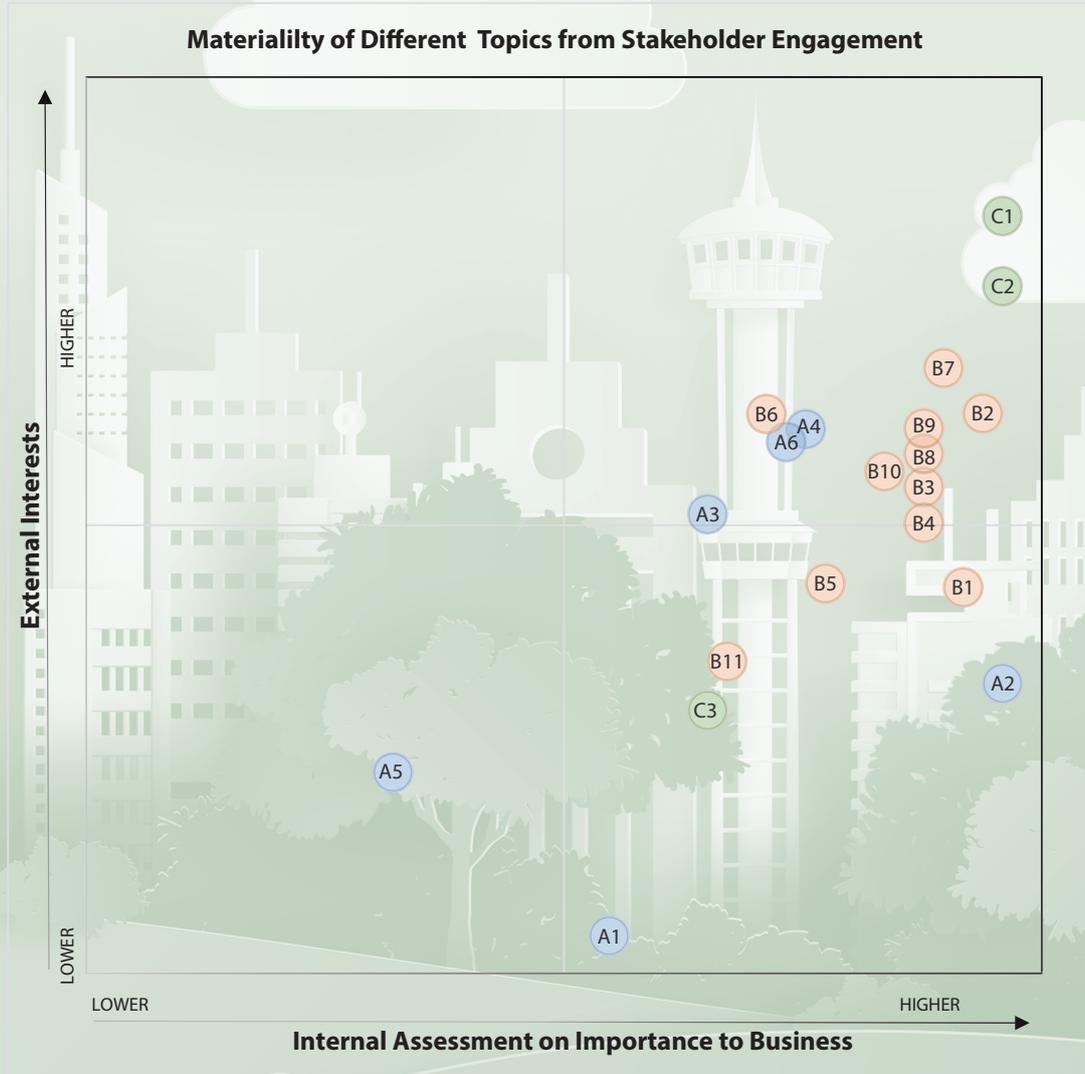
The Group values input from its stakeholders, hence, both internal and external stakeholders are engaged with. To share and exchange industrial news and ideas with external stakeholders in particular, the Group participates in industry associations such as the Guangdong Cities and Towns Water Supply Association and the Northern Guangdong Communication Group. Stakeholders are communicated with through meetings, face-to-face discussions, questionnaires and networking events.

This year, the Group has 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. A materiality assessment has been carried out to show the topics that are important to the Group and its external stakeholders.



Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT AND MATERIALITY (continued)



ENVIRONMENT		SOCIAL		OTHERS	
A1	Energy	B1	Employment	C1	Water Quality and Safety
A2	Water	B2	Health and Safety	C2	Quantity Supplied of Water Plants
A3	Emissions	B3	Development and Training	C3	The Mall and Property Management
A4	Effluent and Waste	B4	Labour Standard		
A5	Other Raw Materials Consumption	B5	Supply Chain Management		
A6	Environmental Protection Policies	B6	Intellectual Property Rights		
		B7	Customer Data Protection		
		B8	Customer Service		
		B9	Product/Service Quality		
		B10	Anti-corruption		
		B11	Community Investment		

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT AND MATERIALITY *(continued)*

According to the matrix, the five most material aspects to the Group are,

Material Aspects	Management Approach on the Aspects
Water 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.
Quantity Supplied of Water Plants	Analyse freshwater shortage problem of Qingxin District and expanded its water supply network and coverage.
Customer Data Protection	Ensure that electronic data is stored appropriately in client database with encryption programmes; hard copies are documented in files room and to be placed in the custody of an appointed person.
Health and Safety	Provide medical insurance, annual body checks, annual women health checks, proper personal protective equipment and health and safety trainings to employees.
Product/Service Quality	Ensure that products and services delivered are tailored to all customers' needs (including customers of both the Water Plants and Dongshan Mall), comply with safety and quality standards, and celebratory/festive decorations are to be put up when appropriate.

These aspects are reviewed and discussed by the Board of Directors of the Group 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 its ESG approach and performance. Please give your suggestions or share your views via email at info@uth.com.hk.



Environmental, Social and Governance Report

THE GROUP'S SUSTAINABILITY MISSION AND VISION

Mission

The Group strives to provide safe and high-quality services for all its operations. For the Water Plants, it focuses on continuously improving its water supply, maintaining stringent industrial standards and securing end users' access to reliable and quality freshwater. The Group is also committed to the core mission of exercising water stewardship and encouraging sustainable use of water resources. In terms of the newly acquired shopping mall, which is located in the traditional core area of Guangzhou, the Group aims to make it as a top-ranking shopping destination in Guangzhou. The target is to create value for its tenants, and to bring a relaxing and different shopping experience to customers.

Vision on Sustainability

Being a responsible enterprise, the Group acknowledges that it must consider the environmental footprint of its business operation while enjoying financial stability. Hence, different ways that would help improve the Group's environmental impacts are continuously looked for. The Group is also committed to enhancing governance, promoting employee benefits and development, protecting the environment, and giving back to society in order to fulfil 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.

A main challenge that the Water Plants has been encountering is the pressure imbalance in water distribution process, mainly due to the aging of pipes in the old city. The Water Plants are therefore continuously upgrading its existing pipe networks. During the reporting period, the 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. The Water Plants will keep on its transformation work in order to ensure a stable supply of water for the residents' daily needs.



Environmental, Social and Governance Report

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

Major Challenges and Development *(continued)*

For Dongshan Mall, as it has just been newly acquired, the Group is still figuring out ways to incorporate environmental and social aspects and elements into its policies and development plan. A brief action plan and future directions to work towards are as follows. First, the energy efficiency shall be improved, and its consumption shall be reduced. Second, contribution shall be put into improving the local community surrounding the mall. Third, appropriate assistance shall be provided during the renovation of the old town and residential area. Forth, tenants' waste sorting shall be more strictly enforced, and help shall be given when necessary. Fifth, air quality within the mall area shall be regulated stringently. In a more general sense, the mall aims to become a green building where use of resources and future development can align with the principles of environmental friendliness. In the long term, the Group hopes that the mall could create influence on the wider community by encouraging the use of alternative fuel cars and improving air quality of the town.

A. ENVIRONMENTAL

The operations of the Water Plants, Dongshan Mall, and Headquarters involve the emission of certain substances. Having said that, all laws and regulations outlined by respective governing authorities were complied with during the reporting period. The Group also strives to continuously develop with consideration on the environment. Therefore, some policies are also put in place to help with the aim.

In this section, environmental-related data of the Water Plants and the Headquarters will be presented. Such data of Dongshan Mall cannot be provided as it is only its first year included in the scope of the Group, making relevant data not readily available. Nevertheless, some of its policies will still be stated in the following. In the upcoming reporting period, the Group will start collecting a full set of data for the mall and will be able to include such information in the Report.

A1. Emissions

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.

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 14.41 kg of nitrogen oxides ("NO_x"), 0.26 kg of sulphur oxides ("SO_x") and 1.39 kg of respiratory suspended particles ("PM").

Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

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

During the reporting period, 19,428 tonnes of carbon dioxide equivalent (tCO₂e) GHG (mainly carbon dioxide, nitrous oxides and methane) were emitted from the operation of the Water Plants and the Headquarters. The annual emission intensity was 152 tCO₂e/million m³ of water supplied, which has decreased by around 15.73% when compared to that of the previous reporting period. See Table 1 for the detailed sources of greenhouse gas emissions and Figure 1 for the comparison of intensity with previous years.

Table 1 Sources of Greenhouse Gas Emission

Scope of Greenhouse Gas Emissions	Emission Sources	Emission (in tCO ₂ e)	Sub-total (in tCO ₂ e)	Total Emission (in percentage)
Scope 1				
Direct Emission	LPG consumed by the canteen operation	0.54	61.82	0.32
	Petrol consumed by Group-owned vehicles	40.64		
	Diesel consumed by Group-owned vehicles	5.72		
	Refrigerants	14.92		
Scope 2				
Energy Indirect Emission	Purchased electricity	19,354.81	19,354.81	99.62
Scope 3				
Other Indirect Emission	Paper waste disposal	10.76	10.99	0.06
	Business air travel	0.23		
Total		19,427.62	19,427.62	100

Note 1: Group-owned vehicles include only Group-owned vehicles in the Water Plants and the 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 0.5422 tCO₂/kWh was used for purchased electricity in Guangdong Province of the PRC.

Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

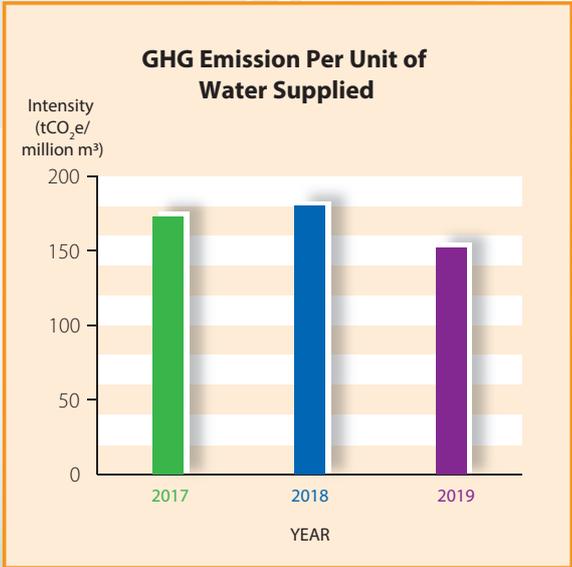
A1. Emissions *(continued)*

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

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 CO₂ contributed by recycling of paper.

Figure 1 GHG Emission per unit of Water Supplied by Year



A1.3. Hazardous Waste

The Water Plant operations consumed chemicals including, polyaluminium chloride ("PAC"), hydrochloric acid, sodium chlorate and sodium hypochlorite. When disposed of 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 120 kg of laboratory waste was generated during the reporting period. Laboratory waste generated were all collected by licensed collectors.

As for hazardous waste in Dongshan Mall, no data on the number of hazardous waste was provided. However, Dongshan Mall strictly follows the guidance provided by the government when handling such waste.

Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

A1.4. Non-hazardous Waste

Non-hazardous waste generated from the Group are mainly mud from dewatered mud water in the water treatment operations and paper from the office operations. The mud is stored in the plant first, and after reaching a certain amount, it will be sent to the site designated by the environmental department for landfill. A total of 946,900 tonnes of mud was generated and disposed of during the reporting period. As for paper use, a total of 2.3 tonnes of paper were used for daily office operations such as documents printing and deliverables packaging. Printed documents are usually filed and stored for record. For Dongshan Mall specifically, there is no relevant data for the reporting period. Yet, it closely follows local guidelines in the treatment of non-hazardous waste. And it will also start to explore measures it can take to handle such waste and develop systems to mark records of generation of such waste.

A1.5. Measures to Mitigate Emissions

The Water Plants and the 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. Employees are also encouraged to take public transit to work. In the Water Plants especially, greening has been worked on to improve the air quality for a comfortable working environment.

As for Dongshan Mall, it does not own any cars. The indoor temperature of the mall is controlled at 26°C in summer and switched off in other seasons, when only ventilating systems will be left in operation to reduce emission.

A1.6. Waste Reduction and Initiatives

The Group understands that high paper consumption piles pressure on the Earth's natural forests and endangered wildlife. Therefore, it encourages paperless administrative procedures as much as possible. When paper use is inevitable, paper saving practices shall be adopted. For example, employees are encouraged to use duplex printing for internal documents and adopt environmentally friendly photocopying habits. Wastepaper collection containers are provided in prominent area for paper reuse. During the reporting period, 49.9 kg of paper was recycled, contributing to a reduction of 0.24 tCO₂e emission. In the Mall specifically, it has also installed some hand dryers in certain washrooms with the primary purpose to replace some of its paper towels use. It will continue to find ways to reduce waste in more areas.

Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources

During the reporting period, the main resources used are energy and water used to process the water treatment operations by the Water Plants. The intensities below are calculated in terms of resources consumption per million m³ of supplied water.

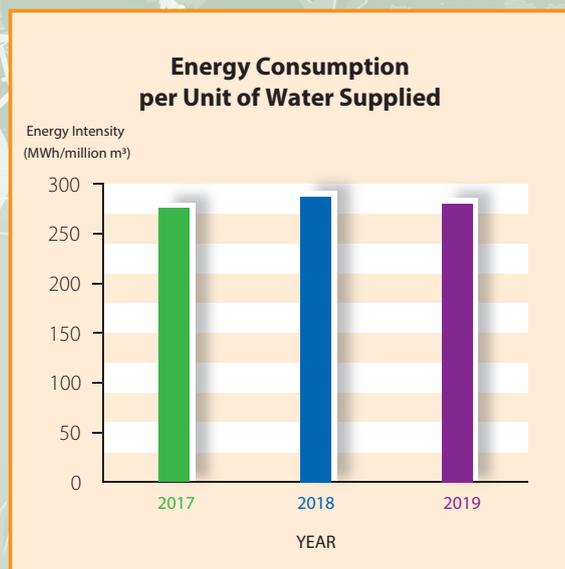
A2.1. Energy Consumption

The energy use involved in the Water Plants, and the Headquarters during the reporting period included the consumption of electricity, petrol, diesel and LPG. The annual energy consumption was 35,842 MWh, and the consumption intensity was 280.30 MWh/million m³ of water supplied, which slightly increased when compared to that of the last reporting period. See Table 2 for the detailed information on energy consumption and Figure 2 for the comparison of energy intensity by year.

Table 2 Sources of Energy and Intensity Figures

Type of Energy	Direct Consumption	Consumption (in kWh)	Consumption Intensity (in MWh/million m ³ of water supplied)
Electricity	35,683,857 kWh	35,683,857	279.06
LPG	180 kg	2,509	0.02
Petrol	15,076 litres	133,595	1.04
Diesel	2,160 litres	21,596	0.17

Figure 2 Energy Intensity by Year



Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

A2.1. Energy Consumption *(continued)*

During the reporting period, energy use has been more efficient for the Group as less energy has been used for each unit of water supplied. See Figures 3-6 for the detailed figures on energy consumption with year by year comparison.

Figure 3 Electricity Use Intensity by Year

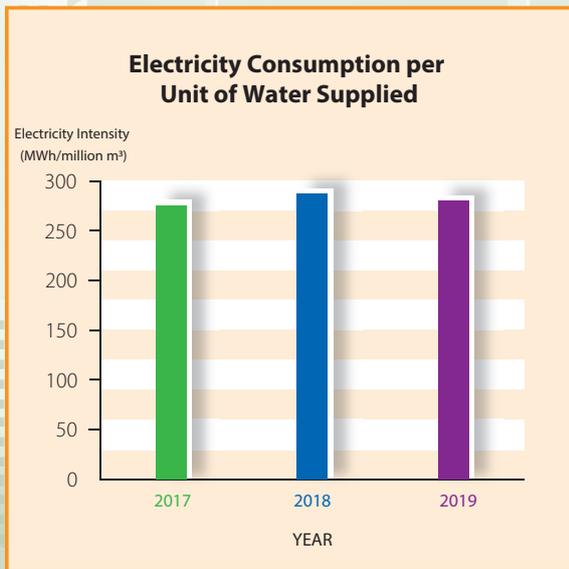


Figure 4 LPG Use Intensity by Year

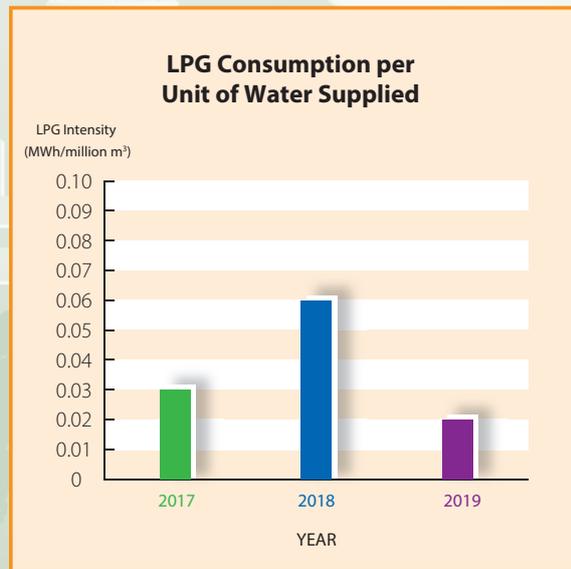


Figure 5 Petrol Use Intensity by Year

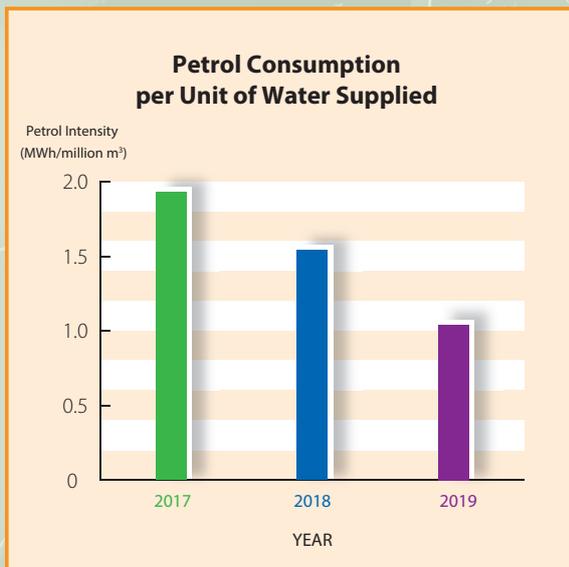
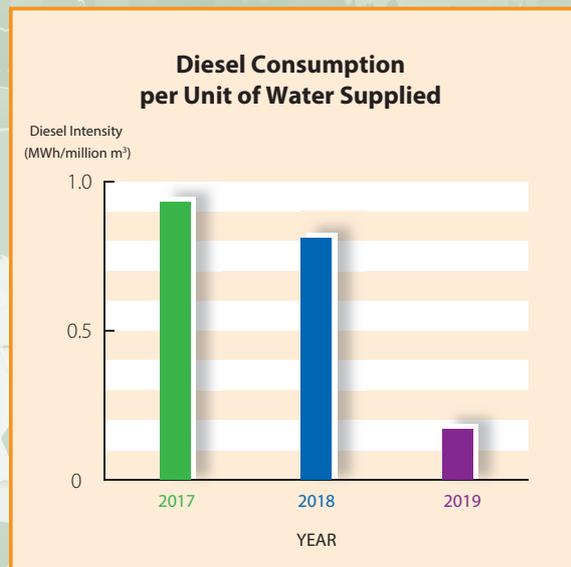


Figure 6 Diesel Use Intensity by Year



Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

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. During reporting period, a total of 4.83 million m³ of water was consumed by the Group for its operations purposes, and the consumption intensity was 0.04 m³/m³ of water supplied.

There used to be difficulty in sourcing water at times in previous years. One of the challenges was the uncontrollable supply of water. The River used to experience floods and there might not be any water to source from when the River dried up in winter. However, this has been resolved when a dam was built a few years ago, water supply had become secured and stable since then.

Another risk in sourcing water lay within the development of the Qingxin District. To assist the development of the district, the Government built a highway next to the River. This posed a threat to the river as the quality of water would be deteriorated if any polluting materials fell into the river, especially if any incident occurs. Having said that, this risk has been eliminated in the previous reporting period when the raw water intake point was moved upstream. No other issue in sourcing water that is fit for purpose had been identified.

Municipal water was used in both Dongshan Mall and the Headquarters and they were managed by their respective property management companies. The amount was insignificant as compared to the water plants.

A2.3. Energy Use Efficiency Initiatives

The Water Plants, Dongshan Mall, and Headquarters proactively explore opportunities to electricity consumption reduction and equipment optimization. The Water Plants have now enhanced the efficiency of their water pumps and equipment, and brought in frequency inverters to adjust power supply according to the different pressure levels automatically.

The Dongshan Mall was only acquired during the year. The management was still formulating plans on the measures to be taken to enhance the efficiency of energy use. Possible measures include the use of LED lights, energy-efficient lifts and air conditioners, and energy management systems.

In office areas, 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.



Environmental, Social and Governance Report

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

A2.4. Water Use Efficiency Initiatives

The water treatment operations continuously put effort in reducing water loss. Some initiatives in place to conserve water resources include adopting a more efficient and water-saving siphoning method during sludge treatment and discharge, reusing treated backwash water for water supply, ensuring that supply water standard is met, and controlling the consumption, frequency and time length of backwash water depending on raw water turbidity. During the reporting period, a tank for collecting recycled water was also built and commenced in use.

For Dongshan Mall, it is exploring the possibility to install water efficient toilets to replace current ones in the coming years. It will continue to work on identifying more measures and policies to improve its water use efficiency.

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 impact of the Group's activities on the environment is its GHG emission. Following, is the potential effect of discharged processed wastewater into the water body, which may affect water quality, thus, biodiversity.

As discussed in section A1.2, the main source of GHG emission comes from electricity consumption of the Water Plants due to its freshwater processing. It poses a certain degree of environmental impacts to the air, hence there is great importance for the Group to reduce its electricity consumption.

Additionally, the processing of water and discharge of wastewater into the waterbodies have to be handled with care and in compliance with required standards, as this would not only affect water quality but also biodiversity of the aquatic ecosystem. Therefore, the Group takes extra precautions in meeting required standards.

By constantly controlling consumption and enhancing the efficiency of energy consumption and backwashing, adverse impacts of the Group's operations to the environment has been reduced.

As compared, the operation of the mall and office contribute relatively less impacts on the environment. Having said that, the mall still takes steps to take up a responsibility in reducing its environmental footprint.

Environmental, Social and Governance Report

B. SOCIAL

To run the Group's water plants, property leasing and office operations, a large pool of employees is recruited to assist in delivering quality output for the business. Hence, employment and labour practices is a big topic for the Group. As the Group's works are mainly services-based, the user experience and the protection of users' data, no matter of the water supply or property leasing are also a top priority for the Group. Therefore, the Group strictly follows laws in providing employees a satisfactory working environment and operating with cautious practices to give customers fulfilling services. Together with its investment in local communities, the Group hopes to establish itself as a Group that carries great corporate social responsibility.

1. Employment and Labour Practices

As the Group regards employees as valuable assets to the operations, great emphasis is put onto providing employees benefits and welfare, granting them equal opportunities, and paying attention to their needs in order to retain talents. Additionally, the Group also makes sure the health and safety of employees are safeguarded, and that employees are constantly empowered and improved in terms of their industry knowledge. To achieve that, certain policies, drills, and trainings are regularly carried out to equip employees with necessary preparation and skills for different circumstances.

B1. Employment

During the reporting period, all laws and regulations regarding compensation and dismissal, recruitment and promotion, working hours, rest periods and other benefits and welfare were complied.

Employees by Group

The Water Plants, Dongshan Mall and Headquarters (excluding the supporting units) had a total number of 373 employees as of 31 December 2019. Figures 7-11 show the distribution of total workforce by employment type, category, gender, age group and geographical region.



Environmental, Social and Governance Report

B. SOCIAL (continued)

1. Employment and Labour Practices (continued)

B1. Employment (continued)

Employees by Group (continued)

Figure 7 Total Workforce by Employment Type

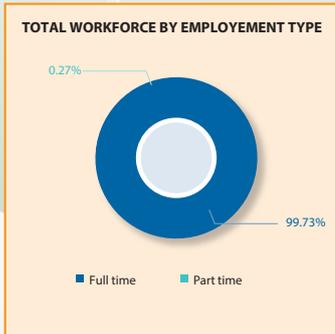


Figure 8 Total Workforce by Employment Category

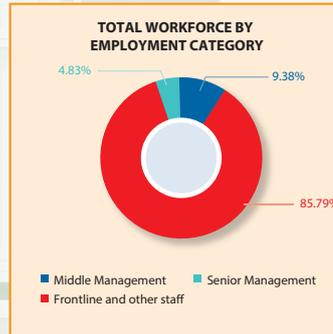


Figure 9 Total Workforce by Gender

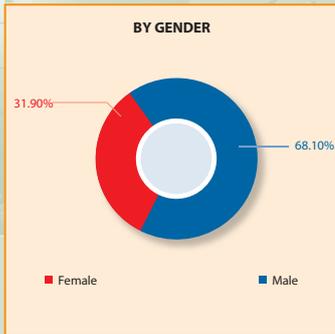


Figure 10 Total Workforce by Age

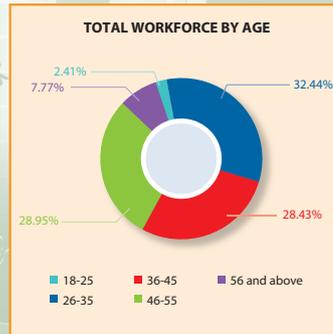
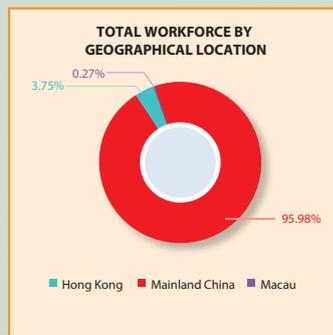


Figure 11 Total Workforce by Geographical Location



Environmental, Social and Governance Report

B. SOCIAL (continued)

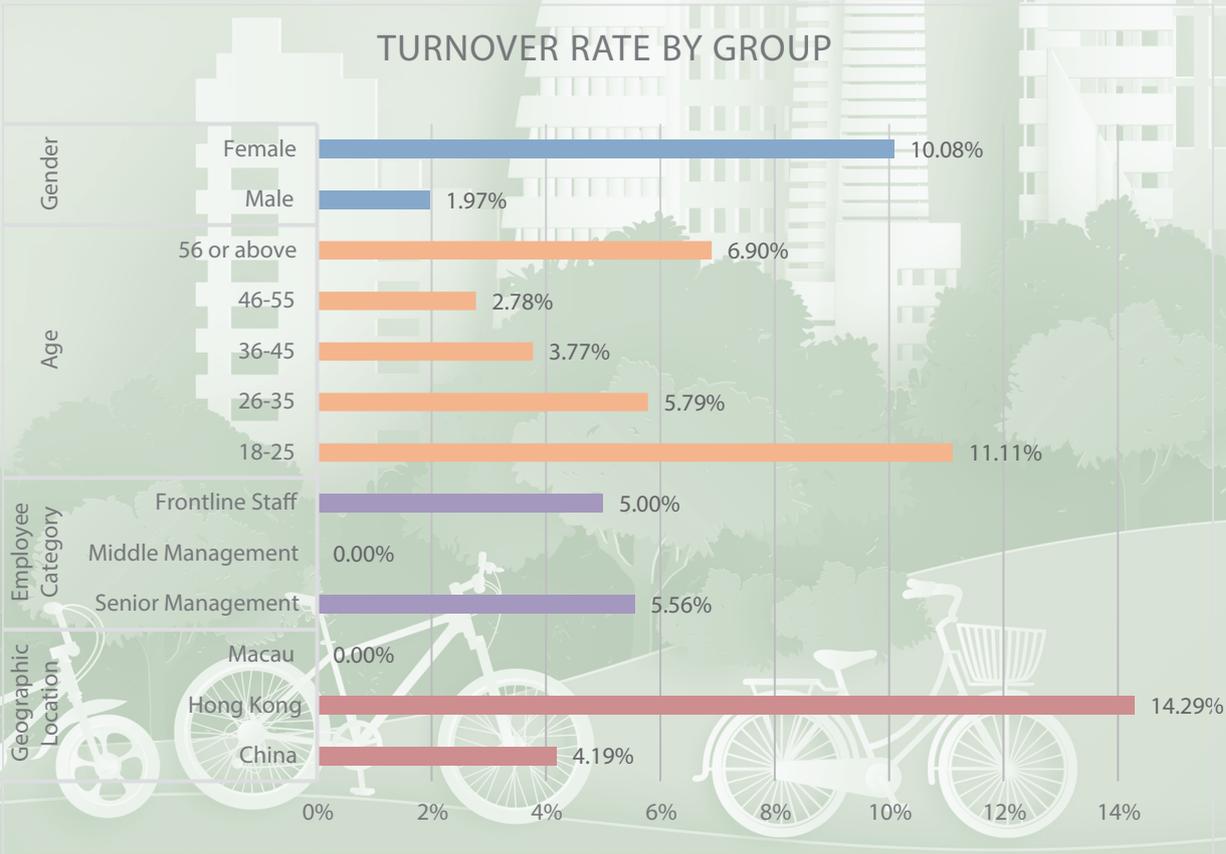
1. Employment and Labour Practices (continued)

B1. Employment (continued)

Turnover

A total of 17 employees left the Water Plants, Dongshan Mall, and Headquarters during the reporting period, which is a relatively low rate of 4.56%. All of those who left worked full time. The annual turnover rates categorized by different gender, age group, employment category, and geographical region in the reporting period are shown in Figures 12.

Figure 12 Turnover Rate of Each Group



Environmental, Social and Governance Report

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. Competitive remuneration, promotion opportunity, compensation and benefit packages are offered to attract and retain talents. Policies on remuneration and welfare of employees are reviewed, approved, implemented and executed by various departments to ensure the returns provided are fairly set, based on employees' performances, duties and market values. 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 place if an employee has committed an act of serious misconduct or deceitful behaviours.

Equal Opportunity

Equal opportunities are given to employees at all stages, including recruitment, training and development, job advancement, and compensation and benefits, in accordance with the implementation method on internal competition set out by the Group. 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. To make the workplace more inclusive, there are accessible roads and pathways designed and built for the Group's employees with disabilities.

Environmental, Social and Governance Report

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B1. Employment *(continued)*

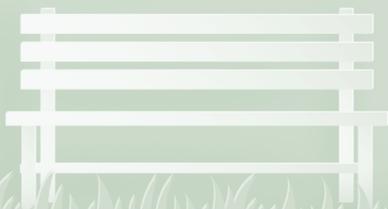
Employment Communication

The Group encourages equal communication between frontline staff and the management, and promotes harmonious relationships in the workplace. In terms of responsible parties for boosting such relationships, the Human Resources Department takes part in enhancing communication among employees, protecting labour's welfare, and dealing with complaints. There is also a Labour Union in the Water Supply Development Company, which was set up according to the Trade Union Law of the PRC and the Chinese Trade Union Constitution of the PRC. It aims to promote productivity, gather, unify and invigorate workforce, and establish a bridge for communication for the Group's internal communication. The Group's policies and important announcement are circulated among employees through intranet, notice boards and meetings.

In terms of other opportunities and events for co-workers to establish ties, there is a basketball court near the water plant of Taihe Company for employees to bond with each other outside of workplace. Employees are also signed up for various sports activities and competitions organized by the Qingxin District of Qingyuan regularly such that they could cooperate in more occasions. Christmas parties, annual dinners and meetings, hiking and sports activities, boat trips, celebration of the Party anniversary, knowledge competition and exchange activities, etc. are arranged and held at least once a year to enhance the sense of belonging and promote cordial relationships among employees. This has contributed to the relatively low turnover rate of the Group.

B2. Occupational Health and Safety (OHAS)

The Group complies with all applicable occupational health and safety laws and regulations of the PRC and Hong Kong. The Group is committed to equipping employees with proper personal protective equipment, delivering OHAS knowledge, and providing trainings to employees in accordance with national standards, especially in the Water Supply Development Company where accidents would most likely happen.



Environmental, Social and Governance Report

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B2. Occupational Health and Safety (OHAS) *(continued)*

In the water treatment operations, a responsible person for safety management is appointed to assist in establishing a safety management system and targeting at a workplace with zero occupational disease incidents. For employees who deal with hazardous materials, chemicals, toxic substances, and radioactive sources, there are strict requirements for them to carry out body checks before and throughout their work period. In cases when employees are diagnosed with occupational diseases, they are immediately transferred to other posts which are not exposed to relevant risks of occupational disease. High-temperature subsidy is provided to employees working under high temperature according to the statutory heatstroke prevention and cooling measures. A Production Safety and Accidents Emergency Plan, in which potential risks and hazards are identified and comprehensive contingency plans are developed, is available for both production related or non-related 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 actions to be taken when accidents occurred. To make sure fire distinguishers work normally, internal fire safety inspection is conducted annually. Water tanks are locked to avoid unauthorized access. Policies on management of precursor chemicals (e.g. hydrochloric acid) and rules on storing hydrochloric acid are posted at conspicuous locations. Storage area with explosives (e.g. chlorine dioxide) are also installed with gas detectors and surveillance camera to avoid explosion and unauthorized access respectively.

In Dongshan Mall, fire extinguishers are placed at various locations according to local laws and regulations and escape routes are clearly indicated. All fire service installation and equipment regulations are ensured to be in service at the premise. Inspections are also carried out regularly to make sure that the equipment can function properly.

In certain offices, plants are placed around the work area to improve indoor air quality. Apart from maintaining safe and healthy working environment, the Group also ensures workload of employees is manageable, and two-way communication through open office spaces and regular team meetings are taken place, such that employees are not over-stressed.

Environmental, Social and Governance Report

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B2. Occupational Health and Safety (OHAS) *(continued)*

During the reporting period, 5 incidents occurred during working hours, most were induced by minor accidents during site visits in the Water Plants.

Table 3 Work Related Injuries

Occupational Health and Safety Data in 2019	
Work related fatality	0
Work injury cases >3 days	2
Work injury cases ≤3 days	3
Lost days due to work injury	58

B3. Development and Training

The Group believes that trainings are precious opportunities for employees’ continuous development and work efficiency enhancement. Hence, comprehensive trainings are provided for the Group’s employees. To ensure that every employee meets standards of safe and quality production, employees are only allowed to work after passing examinations in trainings (such as induction, specialised and new technologies training). The Group also conducts annual safety examinations to ensure that 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.

Table 4 Training arranged for Employees of the Group

Types of training	Description
Induction Trainings	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Provide employees with duty-related trainings Include topics on management, mergers and acquisition, general operation, plant management and customer services

Environmental, Social and Governance Report

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B3. Development and Training *(continued)*

Types of training	Description
External Trainings	<ul style="list-style-type: none"> Strengthen employees' skills by external organizations Include topics on office management, office secretary, human resources management and financial management
Transferal Trainings	<ul style="list-style-type: none"> Assist employees to transfer from one position to the other with relevant skills
Specialised Training	<ul style="list-style-type: none"> Provide laboratory technicians, electricians, welders, lifting machines operators and mobile machinery operators with professional safety skills and knowledge
Trainings for New Technologies	<ul style="list-style-type: none"> Train employees on operation procedures of the newly introduced technologies, processes, products and equipment
Personal Development Trainings	<ul style="list-style-type: none"> Encourage employees to participate external trainings for self-development

The total training hours conducted by the Water Plants, Dongshan Mall and Headquarters in 2019 was 1,988 hours. Figure 13 shows the percentage of employees trained and average training hours by gender and by employee category.



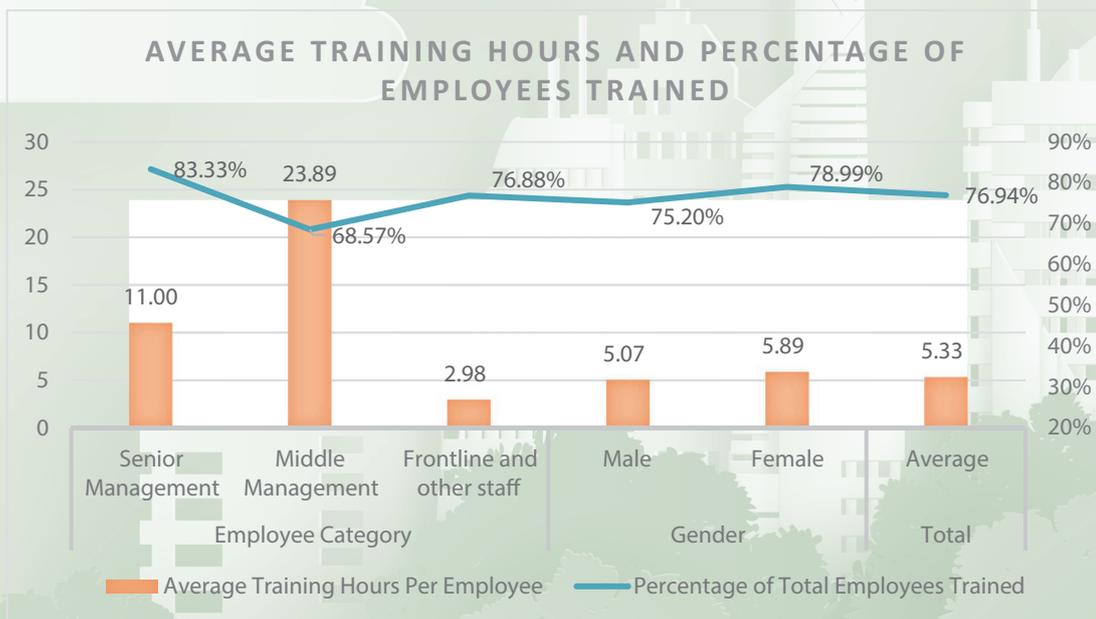
Environmental, Social and Governance Report

B. SOCIAL *(continued)*

1. Employment and Labour Practices *(continued)*

B3. Development and Training *(continued)*

Figure 13 Average Training Hours Received per Employee and Percentage of Employees Trained



B4. Labour Standard

In pursuance of the Labour Law of the PRC and the Employment Ordinance of the Laws of Hong Kong, there is no child nor forced labour in the Group's operation. The Group strictly abides 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. No non-compliance was found during the reporting period.

Environmental, Social and Governance Report

B. SOCIAL *(continued)*

2. Operating Practices

Since the Group's operations take roles as providers to different communities, the management of the supply chain and services are significant to the end products of the Group. To maintain an efficient internal operation, it is necessary that bribes and dishonesties do not exist in the Group. To repay local communities, charitable acts are also performed by the Group. All operating practices of the Group followed laws and regulations and no non-compliance was found during the reporting period.

B5. Supply Chain Management

The Group has an organized procurement system to ensure smooth production and operation, and to optimize allocation of resources and continuous improvement of the system. During the reporting period, the Group worked with 127 suppliers, 73 of which were from different provinces in Mainland China, and the rest from Hong Kong.

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 hygiene. Although the Group has no written policies on managing environmental and social risks of the supply chain, it gives priority to energy efficient equipment when purchasing new equipment. Having said that, the Group is exploring on how environmental and safety aspects may be added into the scope of considerations for choosing suppliers.



Environmental, Social and Governance Report

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B6. Product Responsibility

As the main products delivered by the Group are water services, and property leasing services for recreational use, the extent of people who are involved in the Group's production is large. Hence, the Group is serious about its service quality, data security, and other issues that may impact on customer-experience. There was no non-compliance with laws and regulations relating to health and safety, advertising, labelling, and methods of redress of products and services during the reporting period.

The Water Plants – Supply Water Quality and Chemical Use

In terms of the quality of water supply for the users in Qingxin, providing safe water for users' consumption is always the Group's top priority. All water undergoes strict inspection and conform with the Standards for Drinking Water Quality (GB5749-2006) and Water Quality Standards for Urban Water Supply (CJ/T206-2005).

To achieve that, the Water Plants carry out laboratory tests for raw water (12 parameters), supply water (13 parameters) and pipe network water (13 parameters) each day. Weekly/ biweekly laboratory tests are also conducted for raw water (18 parameters), supply water (20 parameters) and pipe network water (20 parameters); and monthly laboratory tests are conducted for surface water (41 parameters), raw water (74 parameters), supply water (78 parameters) and pipe network water (78 parameters). Supply water also has to pass the half-yearly laboratory tests (106 parameters) carried out by qualified water quality testing laboratories.

As a number of chemicals, including PAC, hydrochloric acid, sodium chlorate and sodium hypochlorite, are used in the water treatment for flocculation, pH adjustment, disinfection and purification, all chemicals are carefully handled according to relevant specifications and guidelines, and properly stored and banded 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. This ensures that the water supplied to citizens of the District are completely safe from substances that might jeopardise users' health.

The operations of the Water Plants do not involve any shipping and recalls.



Environmental, Social and Governance Report

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B6. Product Responsibility *(continued)*

Dongshan Mall – Property Safety and Quality

To ensure the safety of the mall in case of a fire, fire equipment, such as fire extinguishers that are placed around the mall, are regularly inspected to make sure that they function properly in case of a fire. Escape routes are clearly written and illustrated at all levels of the mall, and areas where fire shutters are located at prohibit the placement of any objects at all times. To ensure sufficient air flow in the mall, a ventilation system is also installed to maintain the indoor air quality at high levels.

- In order to ensure that customers enjoy their shopping experience while tenants get enough flow of visitors, the Group tries its best to make the mall a pleasant environment. Apart from ensuring the mall's safety, the mall also makes sure its supply of water, electricity, and other facilities is stable. The mall is also regularly inspected, maintained, and upgraded if necessary, to keep up with its standard. During festive seasons, the mall puts up decorations to attract visitors as well.

The operation of Dongshan Mall does not involve any shipping and recalls.

Customer Service

To maintain quality of service, the Group attaches high importance to communication with end-users. The Group does this by regularly sharing the latest news on social platforms. Not only is the public informed of the Group's recent developments through its official website on a regular basis, during incidents of emergency (such as sudden cut-off of water supply), the public is also updated via text messages and social network platforms.

Apart from allowing the public to understand the Group's recent plans and initiatives, to create a two-way communication, channels are also provided for end-users to voice their opinions and raise complaints. Enquiries and complaints can be raised through the government hotline, the Water Plants' direct line, WeChat public accounts, suggestions collection boxes, and receptions at the plants' operation centres. The water plants had recorded 339 complaints on water supply services in the reporting period. All complaints have been followed up and resolved.

In the mall, staff always try to respond to shoppers' queries and tackle any raised issues promptly. Tenants can call the property management company if there are any problems and they will be followed up promptly.

Environmental, Social and Governance Report

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B6. Product Responsibility *(continued)*

Customer Service (continued)

There is also 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, percentage of user satisfaction, and percentage of replies with respect to hotline enquiries have been set to improve service performances.

Intellectual Property ("IP")

Employees acknowledged and agreed in the employment contract that any IP rights of the Group shall belong solely to the Group. These include, any patent, trade mark, service mark, design right, domain name, trade or business name, copyright and/or all other rights or forms of protection of a similar nature or having equivalent or similar effect; and is applicable for any rights created, developed, existing, arising, or performed by employees for their duties, in any parts of the world. In cases when such IP rights are vested or accrued, in or to employees, such IP rights shall be immediately transferred from the employees to the Group, appointing the Group as their attorney to take any action, including executing and/or delivering any documents (whether under hand or under seal) necessary or desirable to give effect to the transfer. There was no material non-compliance with laws and regulations relating to IP during the reporting period.



Environmental, Social and Governance Report

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B6. Product Responsibility *(continued)*

Information Security

A confidentiality contract that is designed to protect the data and information privacy of both the Group and the Group's customers would be signed by employees upon their commencement of work with the Group.

By signing the confidentiality contract, employees confirm that they would not disclose any information and trade secrets. Employees undertook to 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 any 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 to 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. Data collected will be kept in the files room, and under no circumstances would they be handed to any third parties. Employees violating the confidentiality undertakings are subject to disciplinary actions including summary dismissal. The confidentiality contract also seeks to cover customer information. Customer information is carefully protected by a designated information security team.

For Dongshan Mall specifically, no personal information of shoppers is collected. Therefore, there is not any additional concerns regarding data protection matters that shall be noted.

There was no material non-compliance with laws and regulations relating to data protection during the reporting period.

Environmental, Social and Governance Report

B. SOCIAL *(continued)*

2. Operating Practices *(continued)*

B7. Anti-corruption

The Group is committed to managing all businesses without undue influence and regards 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 the Procurement Department that prohibits them to obtain improper interests or benefits from suppliers.

In addition, the Group has a whistle-blowing policy for employees to raise possible improprieties. Concerns raised under the procedure will be taken seriously and the confidentiality of employees raising concerns will be respected until formal investigation starts. 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. Upon receiving any report, the Chairman/Chief Executive or his designate has the power to conduct an initial investigating meeting and discuss the concerns raised and seek to establish the facts and further actions to be taken. In the case of any concern raised against the Chairman/Chief Executive, the employee can raise any concern with any independent non-executive Directors. 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 nor its employees during the reporting period.



Environmental, Social and Governance Report

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 the region.

Raising Environmental and Social Awareness

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

On 15 March 2019, 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. Upholding the principle of “Walking into the communities and villages”, the Group has also participated in various promotional events regarding water consumption. These events include, an outdoor promotional activity, held in a public square in cooperation with the local government, for the World Water Day 2019; an indoor promotional activity, held in a local mall and broadcasted on television, on charters of living a green lifestyle in Qingyuan; and several other educational activities, conducted in local dialects at rural villages targeted at residents, especially elderly, on drinking water safety.

Through these promotional events, the Group showcased its social responsibility as an enterprise by educating and resolving misunderstandings on water quality and water supply. Its efforts in reaching out a wider audience through means of cooperating with the government and the media, and entering small villages, has also exhibited its determination in improving the quality of life of the region.



Directors' Report

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2019, 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 section 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 2019, the Group's business operation made continuous effort in 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 2019 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 2019 and the state of affairs of the Company and of the Group at 31 December 2019 are set out in the consolidated financial statements on pages 80 to 168.

No interim dividend was declared and paid during the year (2018: HK\$Nil).

The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: 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 170. 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\$26,174,000 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 2019, the investment properties of the Group were revalued by independent valuers on an open market value basis at HK\$691,076,000.

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 2019, the Group has secured bank loan, and unsecured government loan amounting to HK\$681,666,000. Details of bank and other borrowings are set out in note 30 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 31(a) to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in note 33 to the consolidated financial statements.

Directors' Report

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 to raise funding to finance the Acquisition. The Rights Issue and the Placing were subsequently approved by the independent shareholders of the Company on 23 April 2019. On completion of the Rights Issue and the Placing which took place on 18 June 2019, 1,805,909,900 Rights Shares were allotted and issued and 1,586,400,000 Untaken Shares were allotted and issued to Placees procured by the Placing Agents under the Placing. The gross proceeds raised by the Company from the Placing and the Rights Issue amount to HK\$780,231,277 in aggregate, which is intended to be utilised partially for the consideration for the Acquisition.

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 was approved by the independent shareholders of the Company on 23 April 2019 and completed in 2019.

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 2019.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year ended 31 December 2019 and as at the date of this report were:

Executive Directors:

Chen Jinyang (Chairman and appointed as Chief Executive Officer on 3 June 2019)

Zhu Fenglian

Zhang Haimei

Non-Executive Director:

Xuan Zhensheng

Chau Cheuk Wah (resigned as Chief Executive officer on 2 June 2019 and re-designated from an executive Director to a non-executive Director on 3 June 2019)

Independent Non-Executive Directors:

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

David Tsoi

Chao Pao Shu George

Directors' Report

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 subsiding at the end of the year are set out below:

Share Options

The GEM share option scheme adopted by the Company on 12 October 2001 (the "Old Share Option Scheme") prior to the Company's listing in October 2001 was 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. After its termination, no further share option can be granted under the Old Share Option Scheme. As at the date of this report, no option remained outstanding under the Old Share Option Scheme.

The Board adopted a new share option scheme (the "New Share Option Scheme") 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 eligible participants including employees, proposed employees, non-executive directors, suppliers and customers of the Group or any invested entities, shareholders of any members of the Group or any invested entities, and any other participants determined by the Directors as having contributed or may contribute by way of joint ventures, business alliances or other business arrangements to the development and growth of the Group (collectively, the "Eligible Participants"), an incentive or rewards for their contributions to the Group. A summary of the principal terms of the New Share Option Scheme can be founded on pages 9 to 19 of the Company's circular dated 19 July 2010.

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. Offers for grant of options shall be valid for acceptance within 21 days after the date of offer, when 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.

Directors' Report

The maximum number of Shares which may be issued upon the exercise of all options to be granted under the New Share Option Scheme (the "Scheme Mandate Limit") was 10% of the Shares in issue as at the date of approval of the New Share Option Scheme. The maximum entitlement of each Eligible Participant in any 12-month period must not exceed 1% of the shares in issue, provided that the maximum entitlement for any grantee being a substantial shareholder or an independent non-executive director or their associates shall be capped at 0.1% of the shares in issue (or HK\$5 million in value based on the closing price of the shares underlying the options, whichever is higher). Any grant exceeding these individual limits shall be subject to shareholders' approval, with the relevant grantees and their associates abstaining from voting. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

As at 31 December 2019 and the date of this report, there was no outstanding option granted under the New Share Option Scheme. The Scheme Mandate Limit was last refreshed at the annual general meeting of the Company held on 30 June 2015. No option was granted under the New Share Option Scheme after such refreshment of limit. As at the date of this report, 207,044,885 options (representing 3.76% of the Company's existing issued share capital) are available for grant under the New Share Option Scheme.

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

Grantees	Date of grant	Vesting period	Exercise period	Exercised price	Number of share options				Outstanding at 31 December 2019	Market value per share at date of grant of option	Market value per share on exercise of option
					Outstanding at 1 January 2019	Granted during the year	Exercise during the year	Cancellation during the year			
Directors											
Mr. Chen Jinyang	25 November 2013	Fully vested on 25 November 2013	25 November 2013 to 11 August 2020	HK\$0.465	20,000,000	—	—	(20,000,000)	—	HK\$0.460	—
Mr. Chau Cheuk Wah	25 November 2013	Fully vested on 25 November 2013	25 November 2013 to 11 August 2020	HK\$0.465	20,000,000	—	—	(20,000,000)	—	HK\$0.460	—
Total					40,000,000	—	—	(40,000,000)	—		

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

Directors' Report

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

As at 31 December 2019, 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				
Ms. Zhu Fenglian (note 1)	—	1,561,140,000	1,561,140,000	—	1,561,140,000	28.32%

Notes:

- Ms. Zhu Fenglian is deemed to be interested in the 1,561,140,000 shares attributable to Ms. Zhu and her controlled corporation, Affluent Vast Holdings Limited ("**Affluent Vast**"), Ever City Industrial Development Limited ("**Ever City**") and Eastcorp International Limited ("**Eastcorp**"). For more details on the deemed interest of Ms. Zhu, Affluent Vast and Ever City, please refer to Note 1 to the section headed "Persons who have an Interest or a Short Position which is Discloseable under Divisions 2 and 3 of Part XV of the SFO and Substantial Shareholding".
- There were no debt securities nor debentures issued by the Group at any time during the year ended 31 December 2019.

Save as disclosed above, so far as the Directors are aware as at 31 December 2019, 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 2019 and for the year ended 31 December 2019:-

- (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 2019, 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	1,561,140,000	28.32%
Ms. Zhu Fenglian (note 1)	Interest in controlled corporation	1,561,140,000	28.32%
Affluent Vast (note 1)	Interest in controlled corporation	1,561,140,000	28.32%
Eastcorp (note 1)	Beneficial owner	600,000,000	10.88%
Wang Yingqi (note 2)	Interest in controlled corporation	550,020,000	9.98%
GPE Guangzhou (note 2)	Interest in controlled corporation	550,000,000	9.98%
GPE HK (note 2)	Beneficial owner	550,000,000	9.98%

Notes:

1. Ms. Zhu, Affluent Vast and Ever City are deemed to be interested in 1,561,140,000 shares of the Company, representing 28.32% of the total issued share capital of the Company, which comprises (a) 961,140,000 shares directly held by Ever City; and (b) 600,000,000 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.
2. According to the disclosure of interest ("DI") filings, (a) Global Pay Easy (Hongkong) Technology Limited ("GPE HK") was interested in 550,000,000 shares of the Company, representing 9.98% of the total issued share capital of the Company; (b) GPE HK was wholly owned by Global Pay Easy Technology Company Limited ("GPE Guangzhou"), which was in turn 85% owned by Wang Yingqi ("Ms. Wang") and Ms. Wang was personally interested in 20,000 shares of the Company.

Directors' Report

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 2019, 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 2019, 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 2019.

CONNECTED TRANSACTIONS

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 the Placing were subsequently approved by the independent shareholders of the Company on 23 April 2019. On completion of the Rights Issue and the Placing which took place on 18 June 2019, 1,805,909,900 Rights Shares were allotted and issued and 1,586,400,000 Untaken Shares were allotted and issued to Placees procured by the Placing Agents under the Placing. The gross proceeds raised by the Company from the Placing and the Rights Issue amount to HK\$780,231,277 in aggregate, which is intended to be utilised partially for the consideration for the Acquisition.

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 was approved by the independent shareholders of the Company on 23 April 2019 and has completed in 2019.

CONNECTED TRANSACTIONS *(continued)*

As disclosed in Note 30 to the consolidated financial statements, as at and throughout the period ending 31 December 2019, the Group had certain banking facilities which were not only secured by land charges, pledge of trade receivables, pledge of equity interest in the Group's subsidiaries and intra-group corporate guarantees, but also guaranteed by the following connected persons or associates of the Company (the "Guarantee by CP"), namely: Dongguan New Century Science and Education Development Limited, Ms. Zhu Fenglian and her spouse, and the non-controlling shareholders of subsidiaries. Since the Guarantee by CP is conducted on normal commercial terms or better to the Company, no consideration is required to be paid by the Company for the Guarantee by CP and the Guarantee by CP is not secured by any assets of the Company or its subsidiaries, the Guarantee by CP is fully exempt under Rule 14A.90 from all disclosure, annual review, circular and shareholders' approval requirements of the Listing Rules.

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 6% 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 10% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 6%.

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.

Directors' Report

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 23 to 35 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2019. 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, PKF Hong Kong Limited, is to be proposed at the forthcoming general meeting.

On behalf of the Board

Chen Jinyang
Chairman

Hong Kong, 25 March 2020

Independent Auditor's Report



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

大信梁學濂(香港)會計師事務所有限公司

香港
銅鑼灣
威非路18號
萬國寶通中心26樓

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Universal Technologies Holdings Limited and its subsidiaries (together the "Group") set out on pages 80 to 168, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

Independent Auditor's Report

KEY AUDIT MATTERS

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

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill and intangible assets

Refer to notes 17 and 18 to the consolidated financial statements.

Our audit procedures in relation to management's impairment assessment included:

The Group has goodwill of HK\$nil and intangible assets of HK\$327,497,000 respectively relating to the water supply business and financial services segments. Impairment loss of HK\$99,037,000 and HK\$nil have been made over goodwill and intangible assets respectively.

- 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.

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 impairment loss of HK\$99,037,000 and HK\$nil in respect of the goodwill and intangible assets are considered necessary. 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.

Independent Auditor's Report

Valuation of investment properties

Refer to note 15 to the consolidated financial statements.

The Group holds a portfolio of investment properties in Hong Kong and the People's Republic of China (the "PRC") with an aggregate fair value of HK\$691,076,000 which accounted for 30% of the Group's total assets at 31 December 2019.

The fair values of investment properties at 31 December 2019 were assessed by the directors based on independent valuations prepared by qualified external property valuers. The fair value gain on investment properties of HK\$1,596,000 recorded in the consolidated statement of profit or loss represented 1% of the Group's loss before income tax for the year ended 31 December 2019.

Our audit procedures in relation to management's fair value assessment included:

- Evaluate the external valuers' competence, capabilities and objectivity;
- Obtain an understanding of the valuation process and techniques adopted by the external valuers to assess if they are consistent with industry norms; and
- Obtain the valuation reports and discuss with the external valuers to assess the reasonableness of the significant unobservable inputs and the accuracy of the source data used by the valuers and check, on a sample basis, the accuracy and relevance of the input data used, including the capitalisation rates, market rent and market price, to the recent renewal of lease or sale transactions of the Group and of the market.

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.

Independent Auditor's Report

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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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.

Independent Auditor's Report

- 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.

The engagement director on the audit resulting in this independent auditor's report is Lam Kar Bo (Practising Certificate Number: P05453).

PKF Hong Kong Limited
Certified Public Accountants
Hong Kong, 25 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
Revenue	4	303,598	271,909
Cost of sales/services rendered		(237,661)	(187,350)
Gross profit		65,937	84,559
Other income and gains	5	9,946	19,880
Impairment loss on goodwill	18	(99,037)	—
General and administrative expenses		(65,772)	(75,596)
(Loss)/profit from operations		(88,926)	28,843
Finance costs	6(a)	(24,260)	(28,239)
(Loss)/profit before income tax	6	(113,186)	604
Income tax expense	8	(3,516)	(10,621)
Loss for the year		(116,702)	(10,017)
Attributable to: –			
Shareholders of the Company		(116,634)	(26,805)
Non-controlling interests		(68)	16,788
Loss for the year		(116,702)	(10,017)
Loss per share (in cents)	11		Restated
– Basic		(2.96)	(1.26)
– Diluted		(2.96)	(1.26)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Loss for the year	(116,702)	(10,017)
Other comprehensive loss:– Items that may be reclassified subsequently to profit or loss:– Exchange differences arising on translation of financial statements of overseas subsidiaries	(2,997)	(4,765)
Other comprehensive loss for the year, net of tax	(2,997)	(4,765)
Total comprehensive loss for the year	(119,699)	(14,782)
Total comprehensive (loss)/income attributable to:– Shareholders of the Company	(119,256)	(25,549)
Non-controlling interests	(443)	10,767
	(119,699)	(14,782)

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	471,050	493,213
Prepaid land lease premium	14	28,097	28,706
Investment properties	15	691,076	46,599
Right-of-use assets	16	2,484	—
Intangible assets	17	327,497	353,701
Goodwill	18	—	99,037
Deposit paid for acquisition of property, plant and equipment	19	12,641	13,224
Deferred tax assets	9(a)	1,654	266
		1,534,499	1,034,746
CURRENT ASSETS			
Inventories	20	28,280	24,467
Debtors	21	28,335	24,195
Deposits, prepayments and other receivables	22	10,952	7,713
Prepaid land lease premium	14	—	557
Fixed deposits		248,754	122,135
Cash and bank balances	23	484,707	166,533
		801,028	345,600
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	30	36,662	6,687
Trade payables	24	32,886	10,606
Payable to merchants	25	3,011	3,011
Deposits received, sundry creditors and accruals	26	185,997	130,072
Contract liabilities	27	43,566	23,396
Lease liabilities	28	2,519	—
Amounts due to related companies	29	45	46
Tax payable		5,200	5,522
		309,886	179,340
NET CURRENT ASSETS		491,142	166,260

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,025,641	1,201,006
DEDUCT:			
NON-CURRENT LIABILITIES			
Bank and other borrowings	30	645,004	445,492
Lease liabilities	28	28	—
Deferred tax liabilities	9(a)	52,876	60,451
		697,908	505,943
NET ASSETS		1,327,733	695,063
REPRESENTING:—			
CAPITAL AND RESERVES			
Share capital	31(a)	55,128	21,205
Reserves	33	1,074,257	459,443
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		1,129,385	480,648
NON-CONTROLLING INTERESTS		198,348	214,415
TOTAL EQUITY		1,327,733	695,063

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 25 MARCH 2020

ZHU FENGLIAN
DIRECTOR

CHEN JINYANG
DIRECTOR

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Note	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before income tax	(113,186)	604
Adjustments for:-		
Interest on bank deposits	(6,461)	(10,001)
Interest expenses on bank loans	23,780	27,948
Interest expenses on lease liabilities	192	—
Depreciation of property, plant and equipment	40,786	41,428
Depreciation of right-of-use assets	2,481	—
Amortisation of prepaid land lease premium	809	846
Amortisation of intangible assets	48,531	39,249
Loss on disposal of property, plant and equipment	—	73
Gain on disposal of prepaid land lease premium	—	(2,067)
Net increase in fair value of investment properties	(1,596)	(231)
Impairment loss on debtors	414	555
Impairment loss on land held for future development for sale	3,268	—
Impairment loss on goodwill	99,037	—
Impairment/(reversal of impairment) loss on other receivables	18	(4)
Gain on early extinguishment of bank loans	—	(7,077)
Unrealised exchange gain	—	(6)
Operating profit before working capital changes	98,073	91,317
Increase in inventories	(7,544)	(19,754)
(Increase)/decrease in debtors	(5,047)	1,555
Increase in other deposits, prepayments and other receivables	(3,412)	(534)
Increase/(decrease) in trade payables	22,815	(22,548)
Increase/(decrease) in deposits received, sundry creditors and accruals	21,824	(21,465)
Increase in contract liabilities	20,910	3,781
Decrease in amounts due to a related companies	—	(39,337)
Cash from/(used in) operations	147,619	(6,985)
Bank interest received	6,462	13,528
Tax paid	(12,405)	(13,944)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	141,676	(7,401)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		(48,827)	(34,935)
Proceeds from disposal of property, plant and equipment		—	52
Proceeds from disposal of prepaid land lease premium		—	2,601
Payments to acquire investment properties		—	(1,104)
Payments to acquire intangible assets		(27,709)	(10,557)
Net cash outflow arising on acquisition of assets through acquisition of subsidiaries	34	(572,386)	—
NET CASH USED IN INVESTING ACTIVITIES		(648,922)	(43,943)
CASH FLOWS FROM FINANCING ACTIVITIES			
Release of pledged time deposit		—	291,239
Proceeds from new bank loans		294,998	264,942
Other interest paid		(32,256)	(35,814)
Repayment of bank loans		(53,648)	(471,015)
Capital element of lease rentals paid		(2,419)	—
Interest element of lease rentals paid		(192)	—
Dividend paid to non-controlling shareholder of a subsidiary		(15,624)	(11,716)
Proceeds from issuing shares		780,231	—
Shares issuing expenses		(12,238)	—
NET CASH FROM FINANCING ACTIVITIES		958,852	37,636
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		451,606	(13,708)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		(6,813)	(8,760)
		288,668	311,136
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		733,461	288,668
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		484,707	166,533
Fixed deposits		248,754	122,135
		733,461	288,668

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to shareholders of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Special reserve	Exchange reserve	Share options reserve	Statutory reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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 and 1.1.2019	21,205	513,344	481	1,093	10,754	15,552	1,599	18,299	(101,679)	480,648	214,415	695,063
Rights issue	18,059	397,300	—	—	—	—	—	—	—	415,359	—	415,359
Placing of new shares	15,864	349,008	—	—	—	—	—	—	—	364,872	—	364,872
Shares issuing expenses	—	(12,238)	—	—	—	—	—	—	—	(12,238)	—	(12,238)
Cancellation of share options	—	—	—	—	—	—	(1,599)	—	1,599	—	—	—
Dividend paid to non-controlling shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	(15,624)	(15,624)
Total comprehensive loss for the year	—	—	—	—	—	(2,622)	—	—	(116,634)	(119,256)	(443)	(119,699)
Transferred to statutory reserve	—	—	—	—	—	—	—	3,345	(3,345)	—	—	—
At 31.12.2019	55,128	1,247,414	481	1,093	10,754	12,930	—	21,644	(220,059)	1,129,385	198,348	1,327,733

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 dollar (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 ("HKFRS"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK(IFRIC)-Int") 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements (2015-2017)	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 16. 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 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease, HK(SIC)-Int 15, Operating leases – incentives, and HK(SIC)-Int 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 on 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets as disclosed in note 16 to the consolidated financial statements. For an explanation of how the Group applies lessee accounting, see note 2(j) to the consolidated financial statements.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.98%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Lessee accounting and transitional impact *(continued)*

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:–

- (1) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019; and
- (2) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in note 35 to the consolidated financial statements to the opening balance for lease liabilities recognised as at 1 January 2019:–

	HK\$'000
Operating lease commitments at 31 December 2018	5,261
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(35)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	3
	5,229
Less: total future interest expenses	(263)
Total lease liabilities recognised at 1 January 2019	4,966

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equals to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:-

	At 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	At 1 January 2019 HK\$'000
Non-current assets			
Right-of-use assets	–	4,966 ¹	4,966
Prepaid land lease premium	28,706	557 ²	29,263
Current assets			
Prepaid land lease premium	557	(557) ²	–
Current liabilities			
Lease liabilities	–	(2,426) ¹	(2,426)
Non-current liabilities			
Lease liabilities	–	(2,540) ¹	(2,540)

¹ Capitalisation of lease contracts

² Reclassification from current to non-current

Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's consolidated financial statements as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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, including the right-of-use assets arising from leases of the underlying 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 improvements	— 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
Right-of-use assets	— Remaining lease term from 1 January 2019
– Leasehold properties	

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leases

(A) *Policy applicable from 1 January 2019*

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation (note 2(h)) and impairment losses, except for the right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(k) to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leases *(continued)*

(A) Policy applicable from 1 January 2019 *(continued)*

As a lessee (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group's right-of-use assets are not separately presented and are included under "property, plant and equipment", "investment properties", "prepaid land lease premium" and "right-of-use assets" while the lease liabilities are separately presented in the consolidated statement of financial position.

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying asset to the lessee. If this is not the case, the lease is classified as an operating lease. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

The rental income from operating leases is recognised in accordance with note 2(ab) to the consolidated financial statements. When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease, the Group classifies the sub-lease as an operating lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leases *(continued)*

(B) Policy applicable prior to 1 January 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Intangible assets

Rights to operate water supply plants in 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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 involves 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 grantor 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 sets out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the water supply plants to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

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

Service concession arrangements are accounted for as follows if:–

- (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group’s rights over the infrastructure

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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) to the consolidated financial statements.

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 recognises 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 recognises 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) to the consolidated financial statements.

Operating services

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

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) to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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) to the consolidated financial statements.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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) to the consolidated financial statements, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 recognised 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 recognises 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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) to the consolidated financial statements.
- (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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 2019 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKAS 8, Definition of Material	1 January 2020
Amendments to HKFRS 3, Definition of a Business	1 January 2020
HKFRS 17, Insurance Contracts	1 January 2021

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 concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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 property, plant and equipment (including right-of-use assets) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the end of the reporting period was HK\$nil after impairment (2018: HK\$99,037,000). Details of the impairment loss calculation are provided in note 18 to the consolidated financial statements.

(iv) Estimation of fair value of investment properties

Investment properties were revalued at 31 December 2019 based on the appraised market value by independent valuers. 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 2019 was HK\$691,076,000 (2018: HK\$46,599,000).

(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) to the consolidated financial statements, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 and other sources by service lines is as follows:–

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers		
Water supply and related services income	262,795	271,893
Construction services of infrastructure under concession arrangement (note)	27,349	(2,624)
Revenue from other sources		
Rental and building management service income	13,454	2,640
	303,598	271,909

Note:

The amount represents revenue recognised during the construction stage of the service concession period. During the year ended 31 December 2019, changes of estimation of HK\$721,000 (2018: HK\$13,292,000) were made when the Group finalised the construction costs with sub-contractors.

Disaggregation of revenue from contracts with customers and other sources by the timing of revenue recognition and by geographic markets is disclosed in note 41 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5. OTHER INCOME AND GAINS

	2019 HK\$'000	2018 HK\$'000
Interest on bank deposits	6,461	10,001
Government subsidy	119	111
Net increase in fair value of investment properties	1,596	231
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
Exchange gain	1,343	—
Others	427	389
	9,946	19,880

6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):-

(a) Finance costs

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans	32,256	35,344
Less: interest capitalised included in property, plant and equipment and other intangible assets (note)	(8,476)	(7,396)
Interest on lease liabilities	192	—
Bank charges	288	291
	24,260	28,239

Note:

The capitalisation rate was ranged from 5.07% to 5.53% (2018: 5.07% to 5.64%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

6. (LOSS)/PROFIT BEFORE INCOME TAX (continued)

(b) Other items

	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration		
— Audit services	1,151	1,096
— Other services	783	519
	1,934	1,615
Cost of inventories sold	5,376	5,089
Staff costs (including directors' remuneration)		
— Salaries and other benefits	45,274	45,502
— Pension scheme contributions	5,507	4,440
	50,781	49,942
Depreciation of property, plant and equipment	40,786	41,428
Depreciation of right-of-use assets	2,481	—
Impairment loss on debtors	414	555
Impairment loss on land held for future development for sales	3,268	—
Impairment/(reversal of impairment) loss on other receivables	18	(4)
Amortisation of intangible assets	48,531	39,249
Amortisation of prepaid land lease premium	809	846
Minimum operating lease rentals	—	3,438
Short-term lease expenses	496	—
Low value lease expenses	5	—
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)
Less: carrying amounts of property, plant and equipment	—	125
Loss on disposal of property, plant and equipment	—	73
Exchange (gain)/loss	(1,343)	17,501
Gain on early extinguishment of bank loans	—	(7,077)
Rental income less direct outgoings of HK\$4,622,000 (2018: HK\$1,787,000)	(8,832)	(853)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors

Directors' remuneration is as follows:–

Name of director	Year ended 31 December 2019					
	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. Chen Jinyang	60	2,096	61	2,217	—	2,217
Dr. Cheung Wai Bun, Charles, J.P.	360	—	—	360	—	360
Mr. Chau Cheuk Wah	371	905	9	1,285	—	1,285
Mr. Chao Pao Shu, George	240	—	—	240	—	240
Mr. David Tsoi	240	—	—	240	—	240
Ms. Zhang Haimei	60	1,560	—	1,620	—	1,620
Ms. Zhu Fenglian	60	1,560	—	1,620	—	1,620
Mr. Xuan Zhensheng (note ii)	548	—	—	548	—	548
	1,939	6,121	70	8,130	—	8,130

Name of director	Year ended 31 December 2018					
	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. 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
Mr. Zhou Jianhui (note iii)	30	773	9	812	—	812
	1,391	7,535	27	8,953	—	8,953

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 (2018: 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 (2018: one) was as follows:-

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and other benefits in kind	964	832
Pension scheme contributions	-	18
	964	850
	2019	2018
HK\$		
Nil to 1,000,000	1	1

During the year, no share option (2018: 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8. INCOME TAX EXPENSE

- (a) No provision for Hong Kong profits tax has been provided as the Company's subsidiaries operating in Hong Kong have no estimated assessable profits for both years.

The Company's subsidiaries operating in the PRC and Australia are subject to the tax rate at 25% and 30% respectively (2018: 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:–

	2019 HK\$'000	2018 HK\$'000
Current tax:		
Current year	12,166	16,008
Under-provision in respect of previous years	—	56
Deferred taxation (Note 9(a)):	12,166	16,064
Current year	(8,650)	(5,443)
	3,516	10,621

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For the year ended 31 December 2019

8. INCOME TAX EXPENSE (continued)

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

2019	HK HK\$'000	PRC HK\$'000	AUS HK\$'000	Total HK\$'000
Loss before income tax	(25,294)	(84,676)	(3,216)	(113,186)
Applicable tax rate (%)	16.5	25	30	N/A
Tax on loss before income tax, calculated at the applicable tax rate	(4,173)	(21,169)	(965)	(26,307)
Tax effect of non-deductible expenses in determining taxable profit	2,742	22,657	—	25,399
Tax effect of non-taxable income in determining taxable profit	(2,734)	(560)	—	(3,294)
Tax effect of unrecognised decelerated depreciation allowance	5	—	—	5
Tax effect of unrecognised tax loss	4,160	3,615	965	8,740
Others	—	(1,027)	—	(1,027)
Income tax expense	—	3,516	—	3,516
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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:–

	Provision HK\$'000	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 1.1.2018	—	—	(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 and 1.1.2019	—	266	(41,523)	(18,928)	(60,185)
Credited/(charged) to profit or loss – Note 8(b)	4,240	92	(758)	5,076	8,650
Exchange adjustments	(63)	(6)	277	105	313
At 31.12.2019	4,177	352	(42,004)	(13,747)	(51,222)

Represented by:–

	2019 HK\$'000	2018 HK\$'000
Deferred tax assets	1,654	266
Deferred tax liabilities	(52,876)	(60,451)
	(51,222)	(60,185)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9. DEFERRED TAXATION *(continued)*

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

	2019 HK\$'000	2018 HK\$'000
Deductible temporary differences – note (i)		
Decelerated tax allowances	1,173	1,115
Unutilised tax losses	154,861	244,026
	156,034	245,141
Taxable temporary difference – note (ii)		
Accelerated tax allowances	(218)	(186)
	155,816	244,955

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\$88,428,000 (2018: HK\$195,271,000) and HK\$3,297,000 (2018: HK\$80,000) respectively can be carried forward indefinitely and the unutilised tax losses accumulated in the PRC amounted to HK\$63,136,000 (2018: HK\$48,675,000) 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 2019, temporary difference relating to the undistributed profits of the Company's subsidiaries in the PRC was RMB87,015,000 (equivalent to approximately HK\$97,250,000) (2018: RMB88,989,000 (equivalent to approximately HK\$101,305,000)). The related deferred tax liabilities of approximately HK\$4,863,000 (2018: HK\$5,065,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

10. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2019 (2018: Nil).

11. LOSS PER SHARE

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

	2019 HK\$'000	2018 HK\$'000
Loss		
Loss for the year attributable to shareholders of the Company	(116,634)	(26,805)
	2019	2018 (Restated)
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of calculation of basic loss per share	3,944,031,565	2,124,679,317
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 per share	3,944,031,565	2,124,679,317

The weighted average number of shares for the year ended 31 December 2018 for the purpose of the calculation of basic loss per share has been adjusted and restated after taking into account of the rights issue on the basis of two rights share for every one existing share held on the record date as more particularly described in the rights issue prospectus of the Company dated 14 May 2019, which was completed on 18 June 2019.

The diluted loss per share is equal to the basic loss per share for the years ended 31 December 2019 and 2018 as there was no dilutive potential ordinary share in issue. The share options were cancelled during the year ended 31 December 2019.

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For the year ended 31 December 2019

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 2019 amounted to HK\$182,000 (2018: HK\$186,000).

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 2019 amounted to HK\$5,325,000 (2018: HK\$4,254,000).

13. PROPERTY, PLANT AND EQUIPMENT

	Properties held under medium-term lease HK\$'000	Water pipelines HK\$'000	Plant and machinery HK\$'000	Leasehold improvements 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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Properties held under medium-term lease HK\$'000	Water pipelines HK\$'000	Plant and machinery HK\$'000	Leasehold improvements 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 31.12.2019									
Opening net book value	98,782	317,338	8,796	1,060	1,353	36	1,819	64,029	493,213
Exchange adjustments	(717)	(5,470)	(171)	(10)	(35)	—	(8)	(1,140)	(7,551)
Additions	—	3,039	371	127	1,121	—	—	21,516	26,174
Transfer from CIP	—	18,729	1,730	—	6	—	—	(20,465)	—
Depreciation	(7,331)	(30,291)	(1,438)	(522)	(797)	(21)	(386)	—	(40,786)
Closing net book value	90,734	303,345	9,288	655	1,648	15	1,425	63,940	471,050
At 31.12.2019									
Cost	118,194	407,336	15,170	5,043	3,648	431	4,211	63,940	617,973
Aggregate depreciation	(27,460)	(103,991)	(5,882)	(4,388)	(2,000)	(416)	(2,786)	—	(146,923)
Net book value	90,734	303,345	9,288	655	1,648	15	1,425	63,940	471,050

The Group's properties are situated in:—

	2019 HK\$'000	2018 HK\$'000
Hong Kong	4,297	4,459
The PRC	86,437	94,323
	90,734	98,782

Included in the property, plant and equipment is the Group's right-of-use assets of which the Group is the registered owner of these properties interests. The Group holds industrial, residential and commercial properties for its operations in Hong Kong and the PRC, where its office premises, staff quarters and factories are located. Lump sum payments were made upfront to acquire these property interests from their previous registered owners in Hong Kong, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities. The Group constructed buildings on the leasehold land located in the PRC (Note 14). Upon completion, the Group is the registered owner of the buildings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

As at 31 December 2019, the Group's buildings and structure with a net carrying amount of approximately HK\$997,000 (2018: HK\$1,110,000) 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\$65,000 (2018: HK\$66,000) and had made a provision accordingly.

As at 31 December 2019, the Group's construction in progress with a net carrying amount of approximately HK\$22,000 (2018: HK\$23,000), and its water pipeline with a net carrying amount of approximately HK\$138,000 (2018: HK\$115,000) 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.

Notes to the Consolidated Financial Statements

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14. PREPAID LAND LEASE PREMIUM

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

	2019 HK\$'000	2018 HK\$'000
Opening net book value	29,263	31,226
Transfer from investment properties – Note 15	—	488
Disposals	—	(534)
Exchange adjustments	(357)	(1,071)
Amortisation of prepaid land lease premium	(809)	(846)
Closing net book value	28,097	29,263
		2018 HK\$'000
Outside Hong Kong, held under medium-term lease		29,263
Less: Current portion		(557)
Non-current portion		28,706

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.

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15. INVESTMENT PROPERTIES

	HK\$'000
At 1.1.2018	50,775
Net 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 and 1.1.2019	46,599
Net increase in fair value recognised in the consolidated statement of profit or loss	1,596
Acquisition during the year – Note 34	635,985
Exchange adjustments	6,896
At 31.12.2019	691,076

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 2019. The valuation was carried out by two independent firms of surveyors, Graval Consulting Limited and Grant Sherman Appraisal 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15. INVESTMENT PROPERTIES (continued)

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

	Valuation techniques	Unobservable input	Range	Weighted average
Residential properties in Shanghai City, the PRC	Market comparison approach	Premium (discount) on quality of the buildings	-5% to 0%	-0.28%
Industrial properties in Qingyuan City, Guangdong Province, the 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	-5% to 25%	0% to 6.67%
Commercial properties in Qingyuan City, Guangdong Province, the PRC	Market comparison approach	Premium (discount) on quality of the buildings	-15% to 0%	-7.5%
Commercial properties in Guangzhou City, Guangdong Province, the PRC – Carparks	Market comparison approach	Premium (discount) on quality of the buildings	-16% to 62%	6.78%
– Others	Income capitalisation approach	Prevailing market rents	RMB66 to RMB1,162 per square meter per month	RMB167 per square meter per month
		Capitalisation rates	4.75%	4.75%

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

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

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16. RIGHT-OF-USE ASSETS

	Leasehold properties HK\$'000
Cost:–	
At 1.1.2019	4,966
Exchange adjustment	(2)
At 31.12.2019	4,964
Aggregate depreciation:–	
At 1.1.2019	—
Charge for the year	2,481
Exchange adjustment	(1)
At 31.12.2019	2,480
Net book value:–	
At 31.12.2019	2,484

On 1 January 2019, the Group recognised right-of-use assets of HK\$4,966,000 newly capitalised under HKFRS 16.

The Group has entered into lease agreements to obtain the right to use properties as its office premises and as a result incurred lease liabilities (Note 28). The leases typically run for an initial period of two to five years.

In addition to the above, the Group has right-of-use assets related to property interests of which the Group is the registered owner. They are included in “property, plant and equipment”, “prepaid land lease premium” and “investment properties”. Details of which are set out in notes 13, 14 and 15 to the consolidated financial statements. The aggregate depreciation of right-of-use assets is HK\$10,621,000 for the year ended 31 December 2019.

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17. INTANGIBLE ASSETS

	(Note (a)) Other intangible asset HK\$'000
At 1.1.2018	
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 17(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
For the year ended 31.12.2019	
Opening net book value	353,701
Additions	28,069
Adjustments – Note 17(c)	(721)
Amortisation	(48,531)
Exchange adjustments	(5,021)
Closing net book value	327,497
At 31.12.2019	
Cost	449,075
Accumulated amortisation	(120,259)
Accumulated impairment loss	(1,319)
Net book value	327,497

Notes to the Consolidated Financial Statements

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17. INTANGIBLE ASSETS (continued)

Notes : –

- (a) Pursuant to a concession agreement between a subsidiary, Qingyuan Qingxin District Taihe Water Company Limited (“Taihe Water”) and a relevant authority in the PRC dated 21 November 2006, Taihe Water obtained the right to operate certain water supply plants located at Qingyuan City of Guangdong Province in the PRC for a period of 20 years on a BOT basis. Taihe Water is entitled to use all the property, plant and equipment of the water supply plants.
- (b) As at 31 December 2019, land use right held by the Group under service concession arrangement with a net carrying amount of RMB3,912,000 (equivalent to approximately HK\$4,372,000) (2018: RMB4,022,000 (equivalent to approximately HK\$4,579,000)) was pledged to secure the Group’s bank and other borrowings (note 30).
- (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 2019, changes of estimation of HK\$721,000 (2018: HK\$13,292,000) were made when the Group finalised the construction costs with sub-contractors.

18. GOODWILL

	HK\$'000
Cost:–	
At 1.1.2018, 1.1.2019 and 31.12.2019	99,037
Impairment:–	
At 1.1.2018, 31.12.2018 and 1.1.2019	—
Charge for the year	99,037
At 31.12.2019	99,037
Carrying amount:–	
At 31.12.2019	—
At 31.12.2018	99,037

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18. GOODWILL (continued)

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

	2019 HK\$'000	2018 HK\$'000
Water supply services (note)	—	90,290
Financial services	—	8,747
	—	99,037

Note: Water supply services represent a group of CGUs which consist of Qinghui Group and Taihe Water.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Impairment assessment on the water supply services CGU and the financial services CGU as at 31 December 2019 is based on the valuations by an independent professional valuer, Graval Consulting Limited.

Water supply services represent a single group of CGUs for the purpose of impairment assessment, which consist of Qinghui Group and Taihe Water. For Qinghui Group under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations, using cash flow projections based on financial budgets approved by management covering a five-year period (2018: five-year period). A discount factor at a rate of 11.70% (2018: 12.08%) was applied in the value-in-use model of Qinghui Group. Cash flows of Qinghui Group beyond the five-year period are extrapolated using 3% (2018: 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, using cash flow projections based on financial budgets approved by management covering the remaining concession periods of 7 years (2018: 8 years). As disclosed in note 17 to the consolidated financial statements, 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 seven years of the remaining concession period is appropriate. No terminal value was attributed to Taihe Water CGU beyond the seven-year period. A discount factor at a rate of 13.96% (2018: 15.17%) was applied in the value-in-use model of Taihe Water.

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18. GOODWILL (continued)

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 (2018: five-year period). A discount factor at a rate of 11.04% (2018: 11.83%) was applied in the value-in-use model. Cash flows beyond the five-year period are extrapolated using 3% (2018: 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 budgeted average gross profit margin for water supply services and budgeted average net profit margin for financial services and discount rate. The budgeted average gross profit margin used in the financial budgets covering a five-year period and the remaining concession period of Qinghui Group and Taihe Water for the year ended 31 December 2019 were 17.09% (2018: 39.49%) and 12.16% (2018: 18.51%), respectively, as a matter of prudence, due to the receiving of the Cessation Notice and the possible narrowing of profit margin resulted from the switching of water supply as disclosed in the Company's announcement dated 3 March 2020. The budgeted average net profit margin used in the impairment review of the financial services CGU for the year ended 31 December 2019 was -21.71% (2018: 49.46%) as a matter of prudence, due to the worsening economy of Hong Kong and the keen competition between service providers in the capital market.

Details of the impairment loss of each of the CGU recognised during the years ended 31 December 2019 and 2018 and the recoverable amounts of each of the CGU as at 31 December 2019 and 2018 are as follows:–

	Impairment loss recognised		Recoverable amount of the CGU	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Water supply services	90,290	—	793,177	1,720,132
Financial services	8,747	—	—	13,944
	99,037	—	793,177	1,734,076

The impairment loss on the water supply services was mainly attributable to the cessation notice of water intake by the water plant operated by Qinghui Group as set out in note 44(ii) to the consolidated financial statements, possibly resulting in lower operating margin and adversely affecting the future financial performance of the water supply segment. The impairment loss on the financial services was mainly attributable to the worsening economy of Hong Kong and the keen competition between service providers in the capital market. Accordingly, a full impairment of HK\$99,037,000 was provided on the goodwill.

Any adverse change in the assumptions used in the calculations of recoverable amounts would result in further impairment losses on other tangible and intangible assets.

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

As at 31 December 2019, the Group paid a deposit of approximately HK\$12,641,000 (2018: HK\$13,224,000) to acquire property, plant and equipment. Capital commitment of such acquisition is disclosed in note 36 to the consolidated financial statements.

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20. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Water supply and related services		
– Raw materials	14,472	9,002
– Finished goods	4,250	2,678
	18,722	11,680
Property development		
– Land held for future development for sale	12,834	12,787
Less: Impairment loss – Note 20(b)	(3,276)	—
	9,558	12,787
	28,280	24,467

Notes:–

- (a) The amount of properties for future development are all located in Australia and expected to be recovered after more than one year is HK\$9,558,000 (2018: HK\$12,787,000). All of the other inventories are expected to be recovered within one year.
- (b) The movement in the impairment loss on land held for future development for sale during the years is as follows:–

	2019 HK\$'000	2018 HK\$'000
At 1 January	—	—
Impairment loss recognised	3,268	—
Exchange adjustments	8	—
At 31 December	3,276	—

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21. DEBTORS

	2019 HK\$'000	2018 HK\$'000
Trade debtors	30,604	26,076
Less: loss allowance – Note 21(c)	(2,269)	(1,881)
	28,335	24,195

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 37(a) to the consolidated financial statements.
- (b) An aging analysis of debtors, based on invoice date and net of loss allowance on debtors, is set out below:–

	2019 HK\$'000	2018 HK\$'000
0 – 6 months	28,069	24,042
7 – 12 months	225	112
1 – 2 years	41	41
	28,335	24,195

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	1,881	1,377
Impairment loss recognised	414	555
Exchange adjustments	(26)	(51)
At 31 December	2,269	1,881

- (d) At 31 December 2019, the receivables with a carrying amount of RMB24,228,000 (equivalent to approximately HK\$27,078,000) (2018: RMB21,090,000 (equivalent to approximately HK\$24,009,000)) were pledged to secure bank loans granted to the Group (note 30).

Notes to the Consolidated Financial Statements

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22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Utilities and deposits	1,159	1,092
Prepayments	1,361	1,926
Interest receivable	4	5
Other receivables	8,483	4,728
	11,007	7,751
Less: loss allowance on other receivables – Note 22(a)	(55)	(38)
	10,952	7,713

Note:–

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	38	45
Impairment/(reversal of impairment) loss recognised	18	(4)
Exchange adjustments	(1)	(3)
At 31 December	55	38

23. CASH AND BANK BALANCES

As at 31 December 2019, cash and bank balances of the Group denominated in Renminbi amounted to HK\$431,110,000 (2018: HK\$151,331,000). 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.

24. TRADE PAYABLES

An aging analysis of trade payables based on invoice date is set out below:–

	2019 HK\$'000	2018 HK\$'000
0 – 12 months	32,886	10,606

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25. PAYABLE TO MERCHANTS

An aging analysis of payable to merchants based on invoice date is set out below:-

	2019 HK\$'000	2018 HK\$'000
0 – 12 months	—	—
Over one year	3,011	3,011
	3,011	3,011

26. DEPOSITS RECEIVED, SUNDRY CREDITORS AND ACCRUALS

	2019 HK\$'000	2018 HK\$'000
Deposits received	7,145	791
Accruals	13,290	9,720
Sundry creditors	120,878	44,847
Construction fee payable	43,086	74,203
Other tax payable	1,598	511
	185,997	130,072

Sundry creditors include the consideration payable of HK\$63,599,000 for acquisition of assets through acquisition of subsidiaries (Note 34).

27. CONTRACT LIABILITIES

Movements in contract liabilities regarding water supply and related business:-

	2019 HK\$'000	2018 HK\$'000
At 1 January	23,396	19,615
Increase in contract liabilities as a result of receiving forward sales deposits during the year	87,520	79,564
Decrease in contract liabilities as a result of recognising revenue during the year	(66,610)	(74,571)
Exchange adjustment	(740)	(1,212)
At 31 December	43,566	23,396

Revenue that was included in the contract liability balance at the beginning of the reporting period amounting to HK\$17,444,000 (2018: HK\$19,615,000) was recognised in the reporting period.

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28. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16:-

	Present value of minimum lease payments		Minimum lease payments	
	31 December	1 January	31 December	1 January
	2019	2019	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:-				
Within one year	2,519	2,426	2,588	2,611
In the second to fifth year	28	2,540	30	2,618
	2,547	4,966	2,618	5,229
Less: Future finance charges			71	263
Present value of lease obligation			2,547	4,966

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

29. AMOUNTS DUE TO RELATED COMPANIES

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

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30. BANK AND OTHER BORROWINGS

As at 31 December 2019, the bank and other borrowings were analysed as follows:–

	Note	2019 HK\$'000	2018 HK\$'000
Bank loans, secured	(a)	680,782	450,294
Government loans, unsecured		884	1,885
		681,666	452,179
Due for payment:–			
– Within one year		36,662	6,687
– Within two to five years		245,385	120,263
– Over five years		399,619	325,229
		681,666	452,179

Note:–

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

	At 31 December	
	2019 HK\$'000	2018 HK\$'000
Total banking facilities granted	894,080	910,720
Less: banking facilities utilised by the Group	(680,782)	(450,294)
Unutilised banking facilities	213,298	460,426

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30. BANK AND OTHER BORROWINGS (continued)

Note:– (continued)

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

As at 31 December 2019, these banking facilities were secured by :–

- i. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB3,912,000 (equivalent to approximately HK\$4,372,000) (note 17);
- ii. pledge of trade receivables with a carrying amount of RMB24,228,000 (equivalent to approximately HK\$27,078,000) (note 21);
- 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 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 17);
- ii. pledge of trade receivables with a carrying amount of RMB21,090,000 (equivalent to approximately HK\$24,009,000) (note 21);
- 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.

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31. 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 2018, 31 December 2018 and 1 January 2019	5,000,000,000	50,000
Increase in authorised share capital – note a	15,000,000,000	150,000
At 31 December 2019	20,000,000,000	200,000
Issued and fully paid:-		
At 1 January 2018, 31 December 2018 and 1 January 2019	2,120,448,858	21,205
Placing of new shares – note b	1,586,400,000	15,864
Rights issue – note c	1,805,909,900	18,059
At 31 December 2019	5,512,758,758	55,128

Notes:-

- On 23 April 2019, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$200,000,000 by the creation of an additional 15,000,000,000 shares of HK\$0.01 each.
- On 19 June 2019, an aggregate of 1,586,400,000 new shares of HK\$0.01 each of the Company were issued under a specific mandate at a placing price of HK\$0.23 each.
- On 19 June 2019, an aggregate of 1,805,909,900 new shares of HK\$0.01 each were allotted and issued on the basis of two (2) rights share for every one (1) ordinary shares of the Company issued and held on the record date at a subscription price of HK\$0.23 per rights share.

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31. SHARE CAPITAL (continued)

(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 2019 and 31 December 2018 were as follows:-

	2019 HK\$'000	2018 HK\$'000
Total liabilities	954,918	624,832
Total assets	2,333,873	1,380,080
Gearing ratio	40.92%	45.27%

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32. 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.

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32. 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 2019 is as follows:–

Date of grant	Exercise period	Exercise price	Number of share options		
			Outstanding at 1 January 2018, 31 December 2018 and 1 January 2019	Cancellation during the year	Outstanding at 31 December 2019
25 November 2013	25 November 2013 to 11 August 2020	HK\$0.465	40,000,000	(40,000,000)	—

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

	2019		2018	
	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	40,000,000	0.465	60,000,000
Lapsed during the year	—	—	0.465	(20,000,000)
Cancellation during the year	0.465	(40,000,000)	—	—
Outstanding at the end of year	—	—	0.465	40,000,000
Exercisable at the end of year	—	—	0.465	40,000,000

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

There were 40,000,000 share options cancelled during the year ended 31 December 2019.

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

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32. 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.

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33. 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 1.1.2018	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 and 1.1.2019	520,908	481	1,599	(167,982)	355,006
Rights issue	397,300	—	—	—	397,300
Placing of new shares	349,008	—	—	—	349,008
Shares issuing expenses	(12,238)	—	—	—	(12,238)
Cancellation of share options	—	—	(1,599)	1,599	—
Total comprehensive loss for the year	—	—	—	(83,987)	(83,987)
At 31.12.2019	1,254,978	481	—	(250,370)	1,005,089

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 2019, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK\$1,004,608,000 (2018: HK\$352,926,000) 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\$3,345,000 (2018: HK\$6,485,000) from retained profits to statutory reserve fund.

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34. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 15 February 2019, the Group entered into an equity transfer agreement with an independent third party that the Group agreed to acquire the entire equity interest of Chevalier Earth Group Limited (“**Chevalier Earth**”) at a consideration of RMB576,000,000 (equivalent to HK\$635,985,000). The acquisition was completed on 17 September 2019 and Chevalier Earth became a wholly-owned subsidiary of the Group.

Prior to completion of the acquisition, Chevalier Earth and its subsidiaries had not carried on any significant business activities except for holding properties in Guangzhou, the PRC. The acquisition was accounted for by the Group as acquisition of assets, as the operation of Chevalier Earth does not constitute a business.

The net assets acquired by the Group in the above transaction are as follows:–

	HK\$'000
Investment properties	635,985
Total consideration satisfied by:	
Cash	572,386
Consideration payable (included in sundry creditors)	63,599
	635,985
Net cash outflow arising on acquisition	
Cash consideration paid	(572,386)

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35. OPERATING LEASE ARRANGEMENTS

As lessor

As at 31 December 2019, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:-

	2019 HK\$'000	2018 HK\$'000
Within one year	37,863	1,816
After one year but within five years	85,645	1,526
Over five years	5	20
	123,513	3,362

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 HK\$'000
Within one year	2,643
After one year but within five years	2,618
	5,261

The Group is the lessee in respect of a number of properties for office premises held under leases for a term of two to five years with fixed monthly rentals, which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(b)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 2(j) to the consolidated financial statements, and the details regarding the Group's future lease payments are disclosed in note 28 to the consolidated financial statements.

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36. CAPITAL COMMITMENTS

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

	2019 HK\$'000	2018 HK\$'000
Property, plant and equipment	18,373	21,020
Other intangible assets	17	983
	18,390	22,003

37. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS

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

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

(a) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The 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 within 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.

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37. 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 2019:-

	2019		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
0-6 months	1.02%	28,358	289
7-12 months	47.00%	425	200
1-2 years	84.50%	267	226
Over 2 years	100.00%	1,554	1,554
		30,604	2,269
	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.

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

(b) Liquidity risk

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

Maturities of the non-derivative financial liabilities of the Group at 31 December 2019 were as follows:–

	2019				
	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	681,666	867,415	73,291	369,572	424,552
Trade payables	32,886	32,886	32,886	—	—
Payable to merchants	3,011	3,011	3,011	—	—
Sundry creditors and accruals	185,902	185,902	185,902	—	—
Lease liabilities	2,547	2,618	2,588	30	—
Amounts due to related companies	45	45	45	—	—
	906,057	1,091,877	297,723	369,602	424,552
	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

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

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Carrying amounts of financial assets and financial liabilities at 31 December 2019 exposed to currency risk were as follows:-

	2019 HK\$'000	2018 HK\$'000
Financial assets denominated in foreign currencies:-		
Deposits and other receivables	166	166
Fixed deposits	4,970	44,536
Cash and bank balances	2,041	2,044
	7,177	46,746
Financial liabilities denominated in foreign currencies:-		
Payable to merchants	(126)	(126)
Deposits received, sundry creditors and accruals	(64,376)	—
	(64,502)	(126)
Net financial (liabilities)/assets exposed to currency risk	(57,325)	46,620

The Group's net financial (liabilities)/assets exposed to currency risk were primarily denominated in the following currencies:-

	2019 HK\$'000	2018 HK\$'000
Australian dollars	1	1
United States dollars	1,515	1,519
Renminbi	(58,841)	45,100
	(57,325)	46,620

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.

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37. 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 2019 devalue by 10% against all foreign currencies except United States dollars, the carrying amount of the net financial liabilities (2018: net financial assets) of the Group exposed to currency risk at 31 December 2019 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates" would be increased, and hence the equity at 31 December 2019 would be decreased by HK\$5,884,000 (2018: increased by HK\$4,510,000); and loss for the year ended 31 December 2019 would be increased by HK\$5,884,000 (2018: decreased by HK\$4,510,000).

(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.

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

(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.

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 2019 and 2018:–

	At 31 December 2019		At 31 December 2018	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Fixed rate financial assets				
Fixed deposits	1.4%-2.79%	248,754	1.4%-2.7%	122,135
Fixed rate financial liabilities				
Lease liabilities	4.98%	(2,547)	N/A	—
Variable rate financial assets				
Bank balances	0.01%-0.35%	426,805	0.01%-0.35%	142,224
Variable rate financial liabilities				
Bank and other borrowings	3.3%-5.64%	(681,666)	3.3%-5.39%	(452,179)
		(8,654)		(187,820)

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 2019 would be increased (2018: increased) and respective accumulated losses would be increased (2018: increased) by approximately HK\$1,908,000 (2018: HK\$2,320,000).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

(f) Fair values

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

38. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) Apart from the transaction as disclosed in notes 29 and 30 to the consolidated financial statements, the Group had other material transaction with its related party during the year as follows:-

Particulars	Relationship	2019	2018
		HK\$'000	HK\$'000
Rental income	Common shareholder	585	611
	Related party	—	281
Water testing service income	Related party	—	114
Water supply related installation and maintenance income	Related party	—	1,491

(b) Key management compensation

	2019	2018
	HK\$'000	HK\$'000
Fees for key management personnel	1,914	1,391
Salaries, allowances and other benefits in kind	7,349	8,694
Pension scheme contributions	109	101
	9,372	10,186

39. CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no contingent liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

	Pledged time deposit HK\$'000	Bank and other borrowings HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
At 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)
	—	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
Initial application of HKFRS 16 (note 2(b))	—	—	4,966	4,966
At 1 January 2019	—	452,179	4,966	457,145
Changes from financing cash flows:				
Lease rentals paid	—	—	(2,419)	(2,419)
Proceeds from new bank loans	—	294,998	—	294,998
Interest paid	—	(32,256)	(192)	(32,448)
Repayment of bank loans	—	(53,648)	—	(53,648)
	—	661,273	2,355	663,628
Exchange adjustments	—	(11,863)	—	(11,863)
Other changes:				
Interest expenses	—	23,780	192	23,972
Capitalised borrowing costs	—	8,476	—	8,476
At 31 December 2019	—	681,666	2,547	684,213

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

40. RECONCILIATION OF LIABILITIES AND RELATED ASSETS ARISING FROM FINANCING ACTIVITIES *(continued)*

Amounts included in the consolidated statement of cash flows for cash outflows for leases comprise the following:–

	2019 HK\$'000	2018 HK\$'000 (Note)
Within:–		
Operating cash flows	(501)	(3,438)
Investing cash flows	(572,386)	(1,104)
Financing cash flows	(2,611)	—
	(575,498)	(4,542)

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK\$3,438,000 were classified as operating activities in the consolidated statement of cash flows. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(b) to the consolidated financial statements.

These amounts relate to the following:–

	2019 HK\$'000	2018 HK\$'000
Lease rentals paid	(3,112)	(3,438)
Purchase of land and buildings	(572,386)	(1,104)
	(575,498)	(4,542)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41. SEGMENT REPORTING

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

The Group has presented the following two reportable segments.

(a) Water supply and related services

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

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41. 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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Disaggregated by timing of revenue recognition								
Point in time	14,479	17,043	—	—	—	—	14,479	17,043
Over time	275,982	252,718	13,137	2,148	—	—	289,119	254,866
Reportable segment revenue	290,461	269,761	13,137	2,148	—	—	303,598	271,909
Reportable segment profit/(loss)	32,921	68,162	1,671	(4,114)	(32,657)	(45,548)	1,935	18,500
Interest on bank deposits							6,461	10,001
Government subsidy							119	111
Net increase in fair value of investment properties							1,596	231
Impairment loss on goodwill							(99,037)	—
Finance costs							(24,260)	(28,239)
(Loss)/profit before income tax							(113,186)	604
Income tax expense							(3,516)	(10,621)
Loss for the year							(116,702)	(10,017)
Attributable to:								
– Shareholders of the Company							(116,634)	(26,805)
– Non-controlling interests							(68)	16,788
							(116,702)	(10,017)
Depreciation for the year	38,903	39,464	1,590	1,501	2,774	463	43,267	41,428
Amortisation	48,968	39,713	372	382	—	—	49,340	40,095
Capital expenditure incurred during the year	53,727	59,769	636,475	2,915	26	2	690,228	62,686
Reportable segment assets	1,240,016	1,118,265	767,823	106,106	326,034	155,709	2,333,873	1,380,080
Unallocated assets							1,654	266
Total assets							2,335,527	1,380,346
Reportable segment liabilities	857,547	606,645	9,785	1,074	82,386	11,591	949,718	619,310
Unallocated liabilities							58,076	65,973
Total liabilities							1,007,794	685,283

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

41. SEGMENT REPORTING *(continued)*

(b) Geographical information

	PRC		Hong Kong/overseas		Consolidated	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Reportable segment revenue	303,598	271,909	—	—	303,598	271,909
Non-current assets	1,525,976	1,021,038	6,869	13,442	1,532,845	1,034,480

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, right-of-use assets 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		75	216
Interests in subsidiaries		1,150,528	581,422
Right-of-use assets		2,434	—
		1,153,037	581,638
CURRENT ASSETS			
Deposits, prepayments and other receivables		1,721	2,269
Fixed deposits		248,754	98,618
Cash and bank balances		40,681	6,978
		291,156	107,865
DEDUCT:–			
CURRENT LIABILITIES			
Sundry creditors and accruals		70,905	2,742
Amounts due to subsidiaries		310,576	310,550
Lease liabilities		2,495	—
		383,976	313,292
NET CURRENT LIABILITIES		(92,820)	(205,427)
NET ASSETS		1,060,217	376,211
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	31(a)	55,128	21,205
Reserves	33	1,005,089	355,006
TOTAL EQUITY		1,060,217	376,211

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The details of the principal subsidiaries at 31 December 2019 are as follows:-

Name of company	Place of incorporation/establishment and operation	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company		Group's effective interest	Principal activities
			Directly	Indirectly		
Universal Cyberworks International Limited	British Virgin Islands ("BVI")	2 ordinary shares of US\$1 each	100% (2018: 100%)	—	100% (2018: 100%)	Investment holding
Universal Property Holdings Limited	Hong Kong	HK\$10,000	—	100% (2018: 100%)	100% (2018: 100%)	Investment holding
Hooray Asset Management Limited	Hong Kong	HK\$5,640,000 (2018: HK\$4,640,000)	—	100% (2018: 100%)	100% (2018: 100%)	Provision of investment advisory services
Wayland Asia Pacific Estate Pty Ltd	Australia	AUD100	—	100% (2018: 100%)	100% (2018: 100%)	Estate development
Shenzhen Huanye Universal Technologies Limited* ("Huanye")	PRC	RMB85,000,000	—	100% (2018: 100%)	100% (2018: 100%)	Investment holding
Qinghui Properties Limited (note)	PRC	RMB410,000,000	—	49% (2018: 49%)	49% (2018: 49%)	Investment holding
Dongguan Xinhongcheng Enterprise Management Company Limited	PRC	RMB15,000,000	—	49% (2018: 49%)	49% (2018: 49%)	Investment holding
Qingyuan Jingyu Properties Company Limited	PRC	RMB1,000,000	—	49% (2018: 49%)	49% (2018: 49%)	Properties investment
Qingyuan Jinhong Industrial Company Limited	PRC	RMB1,000,000	—	49% (2018: 49%)	49% (2018: 49%)	Properties investment
Qingyuan Kaipeng Properties Company Limited	PRC	RMB1,000,000	—	49% (2018: 49%)	49% (2018: 49%)	Properties investment
Qingyuan Water Supply Development Company Limited ("Water Supply Development")	PRC	RMB98,521,440	—	49% (2018: 49%)	49% (2018: 49%)	Provision of water supply business
Qingyuan Jincheng Water Testing Company Limited	PRC	RMB1,600,000	—	49% (2018: 49%)	49% (2018: 49%)	Provision of water quality testing service

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Name of company	Place of incorporation/establishment and operation	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company		Group's effective interest	Principal activities
			Directly	Indirectly		
Qingyuan Qingxin District Huike Properties Company Limited	PRC	RMB2,000,000	—	49% (2018: 49%)	49% (2018: 49%)	Investment holding
Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Water")	PRC	RMB23,254,000	—	49% (2018: 49%)	24.99% (2018: 24.99%)	Provision of water supply business
Chevalier Earth Group Limited	BVI	HK\$100	100% (2018: nil)	—	100% (2018: nil)	Investment holding
Heng Hui Property Investment Limited	Hong Kong	HK\$130,000	—	100% (2018: nil)	100% (2018: nil)	Investment holding
Guangzhou Yicheng Investment Holdings Limited*	PRC	RMB200,000,000	—	100% (2018: nil)	100% (2018: nil)	Investment holding
Guangzhou Hengxin Yuxuan Industrial Development Limited	PRC	RMB200,000,000	—	100% (2018: nil)	100% (2018: nil)	Properties investment

* 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

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

	2019		2018	
	Water Supply Development	Taihe Water	Water Supply Development	Taihe Water
NCI Percentage	51%	75.01%	51%	75.01%
	2019		2018	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	438,064	37,401	184,205	32,554
Non-current assets	419,386	267,185	429,031	281,558
Current liabilities	(168,741)	(46,578)	(103,683)	(56,242)
Non-current liabilities	(505,533)	(155,577)	(309,588)	(148,364)
Net assets	183,176	102,431	199,965	109,506
Carrying amount of NCI	93,420	76,833	101,982	82,140
	2019		2018	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	221,207	11,463	214,567	78,462
Profit/(loss) for the year	19,494	(7,360)	38,524	(671)
Other comprehensive loss	(3,398)	(1,892)	(10,893)	(6,013)
Total comprehensive income/(loss) for the year	16,096	(9,252)	27,631	(6,684)
Profit/(loss) allocated to NCI	9,942	(5,521)	19,647	(503)
Cash flows generated from operating activities	109,093	21,050	63,319	10,222
Cash flows (used in)/generated from investing activities	(29,641)	(27,912)	(50,895)	2,805
Cash flows generated from/(used in) financing activities	170,145	11,112	20,292	(18,261)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

44. EVENTS AFTER THE REPORTING PERIOD

(i) *Discloseable transaction regarding the formation of a Joint Venture*

On 14 January 2020, Shenzhen Huanye Universal Technologies Limited (“**Listco Subsidiary**”), an indirect wholly-owned subsidiary of the Company and Dongguan Zhaoyu Real Estate Co., Ltd. (the “**JV Partner**”) entered into the joint venture agreement (“**JV Agreement**”), pursuant to which the Listco Subsidiary and the JV Partner (the “**JV Parties**”) agreed to jointly establish the joint venture to participate in land auctions and property development in Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The JV Parties intended to establish a new project company (the “**JV Company**”) to become the vehicle of the Joint Venture, which shall be owned as to 30% by Listco Subsidiary and 70% by the JV Partner. Under the terms of the JV Agreement, the maximum contribution committed by Listco Subsidiary in the JV Company is capped at RMB219,000,000 (equivalent to approximately HK\$245,241,000). Further details have been disclosed in the Company’s announcement dated 14 January 2020.

(ii) *Cessation of water intake by a water plant operated by a 49%-owned subsidiary of the Group*

On 3 March 2020, Qingyuan Water Supply Development Co., Ltd. (“**Water Supply Development**”), a 49%-owned subsidiary of the Group, received a cessation notice issued by the Water Resources Bureau of Qingyuan City (the “**Bureau**”), pursuant to which the Bureau notified Water Supply Development of the decision of the People’s Government of Qingyuan City (the “**Qingyuan Government**”) to stop the water intake of Qixinggong Water Plant operated by Water Supply Development with effect from 4 March 2020 and to commence full water intake of another water plant designated by Qingyuan Government. Further details regarding the Cessation Notice have been disclosed in the Company’s announcement dated 3 March 2020.

Group's Properties

1. PROPERTIES HELD FOR INVESTMENT

Location	Existing use	Term of lease
Commercial units of Jinlong Building located at No. 1 Fangzheng 2nd Street, Qingcheng District, Qingyuan City, Guangdong Province, the PRC	Commercial	Medium
Industrial complex located at No. 16 Beijiang 1st Road, Qingcheng District, Qingyuan City, Guangdong Province, the PRC	Industrial	Medium
Industrial complex located at No. 108 Songgang Road, Qingcheng District, Qingyuan City, Guangdong Province, the PRC	Warehouse	Medium
Room 721 (including the carparking space and storeroom on basement level 1) of Dingbanglichi located at No. 7 of 288 Nong Qingxi Road, Changning District, Shanghai City, the PRC	Residential	Long
Dongshan Jinxuan Xiandai City located at No. 6 Nonglinxia Road, Yuexiu District, Guangzhou City, Guangdong Province, the PRC	Shopping arcade	Medium

2. PROPERTIES UNDER DEVELOPMENT FOR SALE

Location	Intended use	Stage of completion	Expected date of completion	Site area (sq m)	Gross floor area (sq m)	Group's interest (%)
A parcel of land located at 17 Lincoln Drive, Bulleen, VIC3105, Australia	Residential	Vacant land	N/A	885	N/A	100%

Five Years Financial Summary

For the year ended 31 December 2019

RESULTS

	Year ended 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	303,598	271,909	248,536	444,347	224,417
(Loss)/profit for the year	(116,702)	(10,017)	24,576	(4,700)	(62,548)
Attributable to:					
Shareholders of the Company	(116,634)	(26,805)	2,660	(25,171)	(44,412)
Non-controlling interests	(68)	16,788	21,916	20,471	(18,136)
	(116,702)	(10,017)	24,576	(4,700)	(62,548)

ASSETS AND LIABILITIES

	At 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS	1,534,499	1,034,746	1,109,810	1,027,836	1,143,297
CURRENT ASSETS	801,028	345,600	644,788	733,414	1,291,154
DEDUCT:					
CURRENT LIABILITIES	309,886	179,340	601,402	604,471	1,236,394
NET CURRENT ASSETS	491,142	166,260	43,386	128,943	54,760
	2,025,641	1,201,006	1,153,196	1,156,779	1,198,057
DEDUCT:					
NON-CURRENT LIABILITIES	(697,908)	(505,943)	(431,635)	(463,561)	(313,016)
NET ASSETS	1,327,733	695,063	721,561	693,218	885,041