中國水業集團有限公司*

CHINA WATER INDUSTRY GROUP LIMITED

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

and
Share Future Success

ANNUAL REPORT **2019**

* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Yue Hui *(Chairman and Chief Executive Officer)*
Mr. Zhong Wei Guang (Appointed as Chief Operating Officer on 1 November 2019)
Ms. Chu Yin Yin, Georgiana (Appointed as Group Financial Controller on 7 November 2019)
Mr. Liu Feng
Ms. Deng Xiao Ting
Mr. Ho Chi Ho (Appointed on 1 May 2019)
Mr. Zhu Yongjun (Appointed on 5 August 2019)

Independent Non-Executive Directors

Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian
Ms. Qiu Na
Mr. Lam Cheung Shing, Richard (Appointed on 5 August 2019)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Lin Yue Hui *(Chairman)*
Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian

INVESTMENT COMMITTEE

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

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

AUTHORISED REPRESENTATIVES

Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

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

Hong Kong

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

LEGAL ADVISERS AS TO HONG KONG LAWS

Johnny K.K. Leung & Co.

LEGAL ADVISER AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

AUDITORS

Crowe (HK) CPA Limited

REGISTERED OFFICE

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

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STOCK

1129

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	Change
	HK$'000	*HK$'000*	*%*
Financial Result			
Revenue	**1,189,201**	1,008,002	17.98%
Gross Profit	**497,152**	404,156	23.01%
Profit for the year	**178,726**	65,582	172.52%
Profit attributable to owners of the Company	**115,617**	6,646	1,639.65%
Earnings per share (HK cents) – Basic and diluted	**7.24**	0.42	1,623.81%
EBITDA *(Note)*	**488,904**	303,241	61.23%

	2019	2018	Change
	HK$'000	*HK$'000*	*%*
Financial Position			
Net asset value	**1,896,397**	1,762,410	7.60%
Equity attributable to owners of the Company	**1,284,897**	1,219,396	5.37%
Equity attributable to owners of the Company per share (HK$)	**0.80**	0.76	5.26%

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

FIVE YEARS FINANCIAL SUMMARY

	2015 *HK$'000* (restated)	2016 *HK$'000*	2017 *HK$'000*	2018 *HK$'000*	**2019** ***HK$'000***
Results					
Revenue	528,586	550,646	701,524	1,008,002	**1,189,201**
Finance costs	(8,842)	(24,083)	(33,780)	(47,559)	**(68,757)**
Profit (loss) before taxation	(50,658)	124,817	45,105	107,233	**248,014**
Income tax expense	(19,940)	(39,915)	(34,203)	(41,651)	**(69,288)**
Profit (loss) for the year	(70,598)	84,902	10,902	65,582	**178,726**
Assets and liabilities					
Non-current assets	1,390,004	1,547,212	1,907,825	2,182,205	**2,431,726**
Current assets	1,231,659	1,205,620	1,219,728	1,378,507	**2,328,003**
Total assets	2,621,663	2,752,832	3,127,553	3,560,712	**4,759,729**
Non-current liabilities	255,310	254,232	456,431	842,523	**933,783**
Current liabilities	713,794	860,393	851,486	955,779	**1,929,549**
Total liabilities	969,104	1,114,625	1,307,917	1,798,302	**2,863,332**
Net assets	1,652,559	1,638,207	1,819,636	1,762,410	**1,896,397**
Equity attributable to owners of the Company	1,310,827	1,263,852	1,305,399	1,219,396	**1,284,897**
Non-controlling interests	341,732	374,355	514,237	543,014	**611,500**
Earnings (loss) per share					
Basic	(6.56) cents	1.96 cents	(3.08) cents	0.42 cents	**7.24 cents**
Diluted	(6.56) cents	1.96 cents	(3.08) cents	0.42 cents	**7.24 cents**

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018 and HKFRS 16 at 1 January 2019 using the modified retrospective approach respectively. Under this approach, the comparative information is not restated.

CHAIRMAN'S STATEMENT

In 2019, there was a substantial slowdown in the growth of global economy and trading. Under the pressure of economic downturn, all industries in the PRC faced substantial challenges. With the growth deceleration of traditional industries, certain industries underwent over-capacity and were in struggle. Environmental issues such as global warming, water pollution and disturbance of ecological balance, have acquired high awareness. The environmental industry entered into an era of in-depth policy cultivation from the era of policy seeding, forcing the industry to accelerate the development. As a major force of the environmental protection troop, China Water Industry Group strictly followed the government policy and faced the economic winter head-on while constantly searching for a relief strategy. In 2019, the three principal businesses of the Group made substantial development. Meanwhile, non-financial institutions such as Hitachi (China) (日立中國) and BOC & UTRUST (中銀粵財) reached strategic cooperation with the Group in facilitating our corporate development.

MARKET REVIEW:

After experiencing the "First Policy Year" in 2015, the sky-rocketing industrial development in 2016, the critical point of the "13th Five-year Plan" in 2017 and the immense change of the environmental protection development from 2018 to 2019, the "Decision" of the Fourth Plenary Session of the 19th National People's Congress of the Communist Party expressly specified the "implementation of the philosophy of lucid waters and lush mountains being invaluable assets, and persistence in the basic national policy of resources conservation and environmental protection". 2019 was a critical year for "determination to fight the battle of pollution prevention and treatment" and also the year of formulating the "framework of modern environmental treatment system". Along with the transition from "point" to "surface" of environmental treatment and the progression from single project treatment to large scale project treatment, the mass monitoring layout of water, land, solid waste and exhaust was formed. In the new layout, the environmental protection industry entered an era of comprehensive and in-depth cultivation of policy from the era of policy seeding.

At the National Financial Work Conference in 2019, it was explicitly mentioned to enhance the investment in environmental protection and put further focus on three environmental protection battles, namely blue sky, clear water and clean land. In the future, the investment in environmental protection will keep growing. Currently, the investment in the solid waste treatment industry accounts for less than 15% of the overall investment in the environmental industry in the PRC. Consolidating the development prospect of the solid waste industry, the industry and market prospects are still promising whether it is for demands for storage or demands for volume increase.

Under the general strategy of national environmental treatment, the period where traditional water businesses are driven by capital scale is over. The construction of "smart water business" that aims to manage the maximum utilization of water and the effective usage of water is the most important goal for the current water management work. The return of water service era and the arrival of smart water business have a significant meaning for the actualization of sustainable urban development and enhancement of comprehensive urban competitiveness.

BUSINESS REVIEW:

I. Results of Water Sector Exceeding the Expected Growth while Business Development Entered a New Stage

Each company of the water sector maintained safe production throughout the year. As we unremittingly fulfil the responsibility of ensuring safe water for the use by residents, we conscientiously provide services at the front-line of urban water supply and sewage treatment. In 2019, all companies not only overachieved the performance target for the beginning of the year, but also continued to improve the service philosophy on the existing basis and enhanced the use of intelligent water services while implementing business diversification, thereby enabling the overall business of the water sector to enter a new stage.

Yingtan Water Supply Group Co., Ltd. ("**Yingtan Water Supply**") successfully took over Yingtan Railway Water Plant (鷹潭鐵路水廠) and adopted a new safe water supply system, "Three Plants Linkage" (三廠聯動). With the total water supply volume increased from 7,000 tons/day to 15,000 tons/day and the expansion items of water quality inspection stations being 69, the water quality inspection capability was enhanced effectively. We widely promoted NB-IOT smart water meters, while cooperating with Hangzhou Guode Company (杭州國德公司) to develop the "one picture (一張圖)" dispatching and controlling system. The upgrade of 6,000 smart water meters was completed, which basically actualized a full coverage of intellectualization of water meters below DN20. The upgrade of large diameter smart water meters with DN40 and above was initiated. It received a supporting fund of RMB1.04 million from the province 03 special projects. Yichun Water Industry Group Co., Ltd. (宜春水務集團有限公司) has successfully explored new areas of water supply business with substantial breakthroughs in the management of secondary water supply facilities, 11 small communities signing trust agreements and charging water fees from individual users for drinkable water. In September 2019, a water affairs group named "Yichun Water Industry Group Co., Ltd." (宜春水務集團) was established, with Yichun Water Industry Co., Ltd as the parent company. At the same time, in the "Report on the Evaluation of the Business Environment of Yichun City and the Work Evaluation of 'Assessment of Authorities and Positions' by Enterprises and the Public in 2019" (《關於2019年宜春市營商環境評價暨企業、群眾「評機關、評崗位」工作評議情況的通報》) issued by the Office of the People's Government of Yichun City, it acquired the first place of the responsible units (service sector) for optimizing the business environment of the whole city. Yichun Fangke Sewage Treatment Company Limited* (宜春市方科污水處理有限公司) successfully signed a BOT concession right supplementary contract with the local government. The construction for upgrading, reconstruction and capacity expansion projects of the sewage treatment plants in the town center for domestic sewage was completed smoothly, and was inspected and put into operation with sewage treatment volume of 140,000 tons/day and the effluent quality reaching the National Class IA Standard. Moreover, we applied for the national special environmental protection funds of RMB16 million and local special loans of RMB20 million in 2019 to alleviate the financial pressure on the construction of upgrading and capacity expansion projects and ensure the financial stability of the Company. The construction of engineering projects of Linyi Fenghuang Water Industry Co. Ltd. developed rapidly, attaining new highs in operating income. The major engineering and facility installment of Jinxiang sewage treatment projects of Jining City Haisheng Water Treatment Company Limited* (濟寧市海晟水務有限公司) had all been commissioned and were waiting for inspection. Jining City Haiyuan Water Treatment Company Limited* (濟寧市海源水務有限公司) and Foshan City Gaoming Huaxin Sewage Treatment Company Limited* (佛山市高明區華信污水處理有限公司) optimized the treatment techniques which could complete the sewage treatment with the same quality and quantity and lowered costs, and ensure the effluent can meet the quality standards 100%.

II. The results of new eco-energy segment reaching new highs and strong combination of strategic cooperation and internal driving force

The new eco-energy segment achieved transcendental development. The on-grid power generation of New China Water companies was 708 million kWh, representing a year-on-year growth of 24.32%, and the results reached a historical high. In the first half of the year, the development of 3 projects, namely, Lingao Hainan, Gaizhou Liaoning and Lianyuan Hunan, was completed, and 6 projects, namely Hainan Sanya, Hubei Anlu, Shandong Laizhou, Liaoning Haicheng, Dongyang Project and Guangzhou Huadu, commenced operation with newly added power generation totaling 18MW. As of the end of December 2019, New China Water companies had a total of 37 domestic waste landfill gas resource utilization projects with a total designed power generation installed capacity of 147.8MW, maintaining its industrial leading position.

In 2019, New China Water companies explored potentials internally and externally while reducing costs and enhancing efficiency. Financial leases such as Qianhai Xingbang (前海興邦), Ping An Leasing (平安租賃), Agricultural Bank of China, Jiangsu Financial Leasing (江蘇金融租賃), Hitachi (China) (日立中國), etc. were introduced and a strategic cooperation with BOC & UTRUST (中銀粵財) was reached, which provided positive capital cycle for the project development. In respect of internal management, point-to-point revitalization of idle equipment and promotion of unified procurement of frequently-used machine parts and fuel for the project were carried out, and they established their own drilling teams and a pre-processing equipment system, which substantially reduced the expenditure for equipment of new construction projects, procurement unit cost and construction costs.

III. City-industry integration segment leaping in terms of breakthrough and growth speed

Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場) project in Huizhou closely encompassed the planned key points and hot spots of Guangdong-Hong Kong-Macau Greater Bay Area. Leveraging on Huizhou Federation of Young Entrepreneurs as the channel and with government support by industrial policies, it actualized "promoting cities with industries, prospering industries with cities and city-industry integration". With team strategy and team effort, the impact on project construction caused by original contractors was broken through. Engineering audit and settlement were carried precisely and efficiently. All kinds of unresolved engineering problems were resolved rapidly and breakthroughs were achieved on project marketing and sales.

As a cluster area for the space big data industry, Nanjing Space Big Data Industry Park (南京空間大數據產業園) project pioneered the introduction of park management service platform and actualized efficient and scientific management of the intellectual park through the informatized management on the platform. The subject constructions of projects in December all reached the cap with marketing and sales target achievement rate reaching 112% and return target achievement rate reaching 81.5%.

In addition, the businesses of Zhongkuang Group (中曠集團), Hongzhu Trading (宏築貿易), Xiang Rui Property (祥瑞置業) under Yingtan Water Supply Group made steady progress with stable growth of business results throughout the year. In which, Zhongkuang Group (中曠集團) changed from the original joint venture development model to self-operation model and acquired remarkable results. Xiang Rui Property (祥瑞置業) successfully upgraded from Class 4 to Class 3 of Qualifications of Property Developers, laying a solid foundation for the real estate business of the company. In April 2019, Yingtan Water Supply Group invested in the development and construction of 2 real estate projects in Yugan County, namely Sanshui Guobinfu Project and Sanshui California Sunshine Project. In merely 8 months, the real estate business team in Yingtan demonstrated their efficiency and professionalism from land bidding and construction to sales and return. Sanshui Guobinfu Project and Sanshui California Sunshine Real Estate Project in Yugan County achieved the stage operation targets with satisfying sales results. As of the end of December, sell-through rate and return ratio both exceeded 70%.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PLANS:

During Spring Festival in 2020, novel coronavirus pneumonia (COVID-19) epidemic spread rapidly across the Greater China area. The central government and the local government waged an epidemic prevention battle racing against time. The Ministry of Ecology and Environment successively published relevant policy documents in respond to this epidemic. The epidemic imposed a greater challenge on the international situation which was rather unpromising to begin with, and caused impact on the PRC. Enterprises in the environmental protection industry also encountered new challenges. To proactively response to the requirements of national and local government policies, the Group thoroughly implemented the epidemic prevention mechanism and adhered to the principle of ensuring the safety and health of all employees to the maximum extend by adjusting the timeline of work resumption, making early preparation work for production resumption, reasonably arranging employees to take leaves or work from home, and endeavoring to safeguard the stable development of three major business segments, namely water service, new eco-energy and city-industry integration, in order to minimize the impact of the epidemic on the Group's business and thereby ensure normal operation. We believe that opportunities lie within the crisis. As long as we persist in our fundamental conception with unwavering determination, we can eventually triumph in this battle. To continue the Group's development, the following future plans will continue to be implemented:

1. **Expanding along the upstream and downstream of industrial chain and moving towards the new era of the water supply industry**

   The water supply segment, as a public utility, is a policy-oriented industry. Currently, the development of water supply industry tends to be saturated, and the management system of water resources is strict. The industry has entered into a stage of stable development. Driven by the acceleration of urbanization, the total volume of sewage discharge has been increasing every year, and the sewage treatment industry has entered into a stage of rapid growth. In the face of challenges, the traditional operation model of water supply proactively expands along the upstream and downstream of industrial chain. The realization of strategic corporate transformation is the only way to move towards the new era of the water supply industry.

   1. To strongly support the companies in the water supply segment to develop industries other than their principal activities, and to strengthen the construction of the reconstruction works of water supply pipeline network and related ancillary works for water supply and water connection projects;

   2. To continue the implementation of smart water service, to apply a series of smart water supply facilities such as smart water meter, smart manhole cover, smart fire hydrant, smart pump room, etc., and to realize district metering of water supply and implementation of online business. In reliance on the "One Picture (一張圖)" dispatching system which was launched online, to actualize the establishment of the education base for smart water supply service jointly by Yingtan Water Supply and Sanchuan Wisdom (三川智慧);

   3. In recent years, under the State's "One belt, One road" initiative and the establishment of various cooperation mechanisms on the national level, we also identify the immense market potentials in the water supply industry. While keeping its foothold of existing smart water service technologies and maintaining international perspective, the Group will deeply explore the market demand for water treatment in the various countries along the route and keep making innovations. To strive for its slice of "cake" in the trend of international production capacity cooperation, the Group utilized its extensive experience in management and implementation of overseas projects in order to develop in a win-win situation.

2. Consolidating existing business resources and steadily promoting overseas environmental protection business

In recent years, the overall direction of the relevant policies launched in the solid waste industry revolves around the "three actions" principle, namely, reduction of volume, recycling of resources and harmless treatment, which specify the direction of the acceleration of marketization. Currently, the volume of solid waste generation remains high, and there is still a relatively large gap for the treatment of general industrial solid wastes, hazardous wastes and municipal household wastes, and thus the future of the solid waste industry will remain prosperous.

1. Consolidating and developing the existing domestic business resources and steadily promoting overseas environmental protection business;

2. Keeping its foothold in environmental protection and explore other businesses in the environmental protection industry in order to expand its scope of business;

3. Broadening the financing channels while introducing new strategic investments.

3. Sustaining city-industry integration development and exploring the value of urban spaces

In the present, the city-industry integration model, which takes the city as the carrier and industry as the safeguarding basis, has gained growing concern. City-industry integration does not only drive the value enhancement of urban spaces but also provides new ideas for coordination development of industry, city and residents.

1. To expedite the main construction of the Huizhou Honghu Blue Valley Wisdom Square* (惠州鴻鵠藍谷智慧廣場) project, expand customers in the market through the conception of the sales of single buildings or the whole complex; speed up subsequent business promotion and sales works of the Nanjing Space Big Data Industry Park (南京空間大數據產業園) project;

2. By gathering its institutional advantages, Zhongkuang Construction Group (中曠建設集團) devotes great effort to develop markets in Guangdong-Hong Kong-Macau Greater Bay Area. It plans to undertake at least 2 influential engineering projects in Nanchang and Northeast Jiangxi area in order to achieve breakthrough progress; build a team of outstanding contractors, project managers and quality suppliers and formulate preferential policies for joining the team in order to attract more construction talents to join the Company; continue to strengthen the development of self-employed model to carry out the project co-investment model for the core management personnel of the Company in order to renew and expand the ways of self-employment and achieve flexibility and diversity;

3. To complete the construction of Yugan Sanshui Guobinfu Project and Sanshui California Sunshine Project, to actualize the refund delivery of all properties and shops; to facilitate the smooth progress of the construction of Sanshui (三水金麟府) Project. Based on the successful examples of real estate projects in Yugan, to foster the development and investments of real estate projects in surrounding counties and towns in order to stimulate the vitality of urban industries, enhance city function and improve living environment.

4. Looking forward to 2020, the nationwide suspension of work and production due to the COVID-19 outbreak has inevitably caused delays to some extent in the Group's launch of new properties and its commencement and completion plans. In view of tremendous risks inside and outside China, increased external uncertainties and destabilising factors, there was downward pressure on the property market. However, with the support of reasonable monetary easing and proactive fiscal policies by the Chinese government, it is believed that the great resilience in China's economy will enable China to step out of the trough caused by the COVID-19. Pursuant to the government policy, the Group has adjusted its project launch strategy, shifting away from centralized sales launch model. At the same time, the Group has made proactive preparations for adversity in light of the current conditions by organizing multiple forms of online marketing, including live streaming, proprietary sales platform wechat mini program, mobile app, and major third-party platforms to facilitate its consumers' housing transaction. When the impact of the COVID-19 is gradually eliminated according to the current good trend, it is expected that the property market should stabilize in 2020.

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

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

The Group will always be committed to achieving its business philosophy of "gaining government confidence, citizen satisfaction, shareholders' recognition and staff contentment". In 2020, there is no doubt a challenging year but with the Group's solid financial position and diversified income streams, the Group is full of confidence to overcome difficulties and steadily develop its three major businesses in water supply, new eco-energy and city-industry integration. Meanwhile, it will proactively develop other businesses in the upstream and downstream of water supply and environmental protection industries as well as overseas businesses in order to optimize its strength and expand its scale and to break new ground for China Water Industry Group. The Board will continue to adopt a prudent approach in implementing the Group's stated strategies for the benefit of the Group and its shareholders.

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

Mr. Lin Yue Hui
Chairman, CEO and executive Director

Hong Kong, 24 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Net profit for the year

Net profit for the year ended 31 December 2019 (the "**FY2019**") was HK$178.73 million, representing a year-on-year increase of 172.52% over HK$65.58 million for the year ended 31 December 2018 (the "**FY2018**"). Profit attributable to owners of the Company for the FY2019 was HK$115.62 million (FY2018: HK$6.65 million), a substantial increase of HK$108.97 million primarily due to more profit generated from renewable energy projects and gain on disposal of associates. Basic profit per share from operations for the FY2019 was at HK7.24 cents when compared with basic profit per share of HK0.42 cents recorded for the FY2018.

Revenue and gross profit

The Group's total revenue generated from operations increased by 17.98% from HK$1,008.01 million for the FY2018 to HK$1,189.20 million for FY2019. The increase was mainly due to the steady progress of a number of projects under construction couple with the aggregate volume of on-grid electricity of projects in operation continued to rise, contributing to a significant increase in revenue from the operation services.

During the year under review, the renewable energy business segment become the principal source of the Group's revenue which contributed HK$502.92 million (FY2018: HK$433.32 million). Construction services business segment became the second largest revenue generator of the Group which achieved a revenue of HK$456.99 million (FY2018: HK$306.48 million).

The Group's gross profit in 2019 was HK$497.15 million, up by 23.01% compared to HK$404.16 million in 2018. The overall gross profit margin for the FY2019 was a slightly increase of 1.72% in gross profit ratio to 41.81% (FY2018: 40.09%), primarily due to the enhanced gross profit margins of the renewable energy business.

Other operating income and expenses

For the FY2019, other operating income and expenses amounted to HK$87.78 million, (FY2018: HK$69.85 million) rose by HK$17.93 million. Included in the other operating income was primarily of interest income of HK$15.03 million, project management income of HK$28.16 million relating to building construction, government grants of HK$10.04 million to subsidise certain renewable energy and waste treatment projects in the PRC, VAT refund of HK$17.26 million and rental income of HK$4.60 million from investment properties. The increase was mainly due to the provision of management service to building construction projects during the year.

Selling and distribution expenses and administrative expenses

For the FY2019, selling and distribution expenses together with administrative expenses ("**Total Expenses**") collectively increased by HK$44.29 million to HK$321.63 million (FY2018: HK$277.34 million). The rise was primarily attributable to the acquisition and establishment of new companies for the business of renewable energy and property development in the PRC which caused the increment of staff costs and associated operating expenses. Total Expenses mainly consisted of staff costs of HK$164.12 million, legal and professional fee of HK$12.94 million, repair and maintenance of HK$14.69 million and depreciation of HK$21.29 million. The ratio of Total Expenses for the FY 2019 represented 27.05% of revenue, dropped by approximately 2.14% from 29.19% for the FY2018.

Finance costs

Finance costs are mainly interests on fixed coupon bonds. For the FY2019, the finance costs were HK$68.76 million (FY2018: HK$47.56 million), an increase of HK$21.20 million as compared to that of last year. The increase was mainly due to the increase of other loan and lease liabilities over last year.

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

Included in net loss on financial assets at fair value through profit or loss ("**FVPL**") comprised (i) HK$16.03 million for the fair value loss on listed equity securities; and (ii) HK$23.54 million for the loss on disposal of listed equity securities. For the FY2019, net loss on FVPL recorded HK$39.57 million, an increase of HK$12.79 million from the loss of HK$26.78 million for the FY2018. The change in fair value on securities trading is determined based on the quoted market bid prices available on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Impairment loss recognised on other intangible assets, goodwill and property, plant and equipment ("PPE")

For the FY2019, the impairment loss on other intangible assets, goodwill and PPE recorded HK$4.86 million (FY2018: HK$10.09 million), HK$1.35 million (FY2018: HK$8.59 million) and HK$4.04 million (FY2018: HK$4.95 million) respectively, which were provided for Nanjing Feng Sheng New Technology Limited Liability Company* (南京豐尚新能源科技有限公司) ("**Nanjing Feng Sheng**") and Shangdong Qiyao New Energy Company Limited* (山東齊耀新能源有限公司) ("**Shangdong Qiyao**"). Nanjing Jiaozishan Project and Shangdong Qiyao Project are operated by Nanjing Feng Sheng and Shangdong Qiyao respectively. The reasons of impairment loss provided due to reduce new garbage delivered to the landfill sites which caused the volume of landfill gas collected and the electricity generated less than expected resulting in the recoverable amounts less than the carrying amount of both projects.

Net impairment loss recognised on trade and other receivable

For the FY2019, the net impairment loss on trade and other receivable recorded HK$11.34 million (FY2018: HK$6.51 million). The Group applies HKFRS9 simplified approach to measure the expected credit loss ("**ECL**"), which permits the use of lifetime expected loss provision for all trade and other receivable. In assessing the ECL of the Group's trade and other receivable including contract assets, a credit rating analysis of the underlying debtors was adopted by reviewing the historical accounting information, credit risk characteristics including forward-looking information to estimate the default risk. The Group applied different expected loss rates to different classes of receivables according to their respective risk characteristics and business nature. In determining the default risk, factors including but not limited to, the past default history, the duration of the underlying receivables, the existence and valuation of the collaterals, the possibility of adverse change in the debtor's business environment and the debtor's financial position, would be considered.

Gain on disposal of associates

For the FY2019, the gain on disposal of associates were HK$110.85 million (FY2018: Nil). During the year, the Group disposed of 35% equity interest in Jinan Hongquan Water Production Co. Ltd and 30% equity interest in Super Sino Investment Limited ("**Super Sino**"), resulting in net gain on disposals of HK$41.75 million and HK$69.10 million respectively.

Share of results from associates

For the FY2019, the Group shared the profit of HK$2.18 million (FY 2018: HK$2.69 million) which was mainly from the profit of HK$3.08 million from Super Sino. As at 31 December 2019, the Group has three associated companies, including 10% equity interests in Yu Jiang Hui Min Small-Sum Loan Company Limited* (余江惠民小額貸款股份有限公司) ("**Yu Jiang Hui Min**"), 25% equity interests of Yingtan Yuanda Construction Industry Co., Ltd.* (鷹潭市遠大建築工業有限公司) ("**Yingtan Yuanda**") and 49% equity interests of Ziyang Oasis Xinzhong Water Environmental Protection Technology Co., Ltd.* (資陽市綠洲新中水環保科技有限公司) ("**Ziyang Oasis**").

Share of results from joint venture companies

For the FY 2019, the Group shared the loss of HK$2.72 million (FY 2018: loss of HK$0.12 million) which was mainly from the loss of HK$1.87 million from Jiangxi Yuehe Real Estate Co., Ltd.* ("**Jiangxi Yuehe**") (江西越和置業有限公司). As at 31 December 2019, the Group has three joint venture companies, including 40% equity interests in Jiangxi Yuehe, 65% equity interest in Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd. * (宜春市明月山方科污水處理有限公司) ("**Yichun Mingyue Mountain**") and 30% sharing interest in the result performance of Shenzhen Ganglong Obstetrics and Gynecology Hospital* – Ophthalmology Project（深圳港龍婦產科醫院－眼科項目）.

Income tax

For the FY2019, the income tax increased by HK$27.64 million to HK$69.29 million in line with the good performance of the Group (FY2018: HK$41.65 million). No provision for Hong Kong Profits Tax has been made in the financial statements for the FY2019 and FY2018 as the Group's operations in Hong Kong did not have any assessable profits subject to Hong Kong Profits Tax. Taxation for the PRC operations is charged at the statutory rate of 25% of the assessable profits under taxation ruling in the PRC. During the year, certain renewable energy companies in PRC are subject to tax concessions under the relevant tax rules and regulation.

Exposure to Fluctuations in Exchange Rates

Almost all of the Group's operating activities are carried out in the PRC with the most of transactions and assets denominated in RMB but the Company's financial statements are denominated in HK$, which is also the functional currency of the Company. The Group has not adopted any hedging policies. Due to recent fluctuation of RMB exchange rate against HK$, the Group had been monitoring the foreign exchange exposures closely and hedging any significant foreign currency exposure in order to minimise the exchange risk, if necessary.

TREASURY MANAGEMENT

For the FY2019, there had been no material change in the Group's funding and treasury policies. The Group generally finances its business operations and capital expenditure with internally generated cash flow, bank facilities and other borrowings mainly from the issuance of bonds. To support medium to long term funding requirements, the Group also considers via accessing to funding from capital markets, subject to market conditions. On the other hand, the management of the Group closely reviews the trade receivable balances and any overdue balances on an ongoing basis and only trade with creditworthy parties. It has been the policy of the Group to maintain adequate liquidity at all times to meet its obligations and commitments as and when they fall due. The Group's financial risk management strategies include active managing firm level liquidity and interest rate profile via obtaining substantial long term funding sources, with diversifying term structures and funding instruments. The Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank and other borrowings, the Group will consider new financing while maintaining an appropriate level of gearing.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For the FY2019, the Group financed its operations with internally generated cash flows, bank loans and other borrowings. The Group recorded cash and cash equivalents of HK$390.91 million (FY2018: HK$349.87 million) including cash held at financial institutions of HK$6.79 million (FY2018: HK$2.37 million) and an overdraft held at financial institutions of HK$20.48 million (FY2018: HK$55.55 million). The increase in cash and bank balance of the Group was mainly due to the net cash flow from operating activities. With the steady operating cash flows, the Group should have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. The cash and bank balance were denominated in HK$ and RMB.

The net current assets for the Group in 2019 were HK$398.45 million (FY2018: HK$422.73 million). The current ratio (current assets over current liabilities) is 1.21 times as at FY2019 (FY2018: 1.44 times).

Net asset value was HK$1,896.40 million (FY2018: HK$1,762.41 million). Net asset value per share was HK$1.19 (FY2018: HK$1.10).

As at FY2019, the Group's consolidated non-current assets increased by HK$249.52 million to HK$2,431.73 million (FY2018: HK$2,182.21 million) was mainly due to the acquisition of land, the reconstruction and expansion plants for sewage treatment projects and the construction of water meter and pipeline for water supply projects which made the operating concession to increase.

INVESTMENT PROPERTIES

For the FY2019, the Group held the following investment properties for leasing:

	Location	Usage	Approximately gross floor area (square meters)	Lease terms	% of occupancy rate	The Group's interest (%)
1	**Xiabu Centre** Xiabu Water Plant Control Centre No.1 Qilin East Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC	Commercial	15,609.88	Long	96.89%	51%
2	**Yuehu Property** No.8 Shengli West Road, Yuehu District, Yingtan City, Jiangxi Province	Commercial	944.74	Long	86.81%	51%
3	**Yihai International Building** Room C-103, Yihai International Street, 200 meters south of Phoenix Street and Lanting Road, Hedong District, Linyi City, Shandong Province, the PRC	Commercial	151.96	Long	100%	60%
4	**Yichun Properties** No. 542, Mingyue North Road, Yuanzhou District, Yichun City, Jiangxi Province, the PRC	Commercial	556.15	Long	100%	51%

For the FY2019, the carrying value of investment properties recorded HK$89.11 million (FY2018: HK$73.35 million) including HK$63.92 million of the Xiabu Centre, HK$1.77 million of Yihai International Building, HK$6.52 million of Yichun Properties and HK$16.90 million of Yuehu Property. The increase was due to the revaluation of fair value of investment properties and addition of a new property of Yuehu Property, bringing in extra rental income. For the FY2019, the gross rental income from investment properties less direct outgoing recorded HK$3.58 million (FY2018: HK$3.92 million) and recognised fair value gain on investment properties of HK$5.22 million (FY2018: HK$12.48 million). Looking ahead, it was expected the outbreak of COVID-19 in early 2020 will have adverse impact to the Group's property investment. It was also expected certain rent reliefs will be requested by the tenants or/and the vacancy rates of commercial sector will increase, which may lead to decrease in the Group's rental income in 2020 and the fair values of investment properties may be declined.

INVENTORIES

As at 31 December 2019, inventories of HK$636.24 million (31 December 2018: HK$187.57 million) mainly comprised of properties held for sale of HK$101.39 million (31 December 2018: HK$102.62 million) and properties under development of HK$485.27 million for the construction of premises for Sanshui Guobinfu in Jiangxi Province and Nanjing Space Big Data in Nanjing, Jiangsu Province, the PRC (31 December 2018: HK$42.81 million).

Properties held for sale represented the construction of new commercial and residential buildings by Xiang Rui Property at Yingtan City, Jiangxi Province, the PRC which is entirely owned by Yingtan Water. The properties namely Yu Jing No. 1* (御景壹號) located at No. 8 Xinjiang North Road, Xinjiang New District, Yingtan City, Jiangxi Province, the PRC has been completed in July 2017 with a total saleable area of 35,370 sq.m., which comprised of 372 residential apartments, 105 retail shops and 131 car parks. The pre-sales of the project had commenced since October 2014. As at 31 December 2019, there were 356 residential apartments and 7 retail shops being sold (31 December 2018: 352 residential apartments and 6 retail shops).

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

As at 31 December 2019, the fair value of securities investments of the Group including held-for-trading investment and held-for-long term investment recorded HK$60.63 million (FY2018: HK$138.60 million) representing 1.27% of the total assets value of HK$4,759.73 million as at FY2019 (FY2018: total assets value of HK$3,560.70 million). The securities investments of the Group comprised listed securities in Hong Kong and investment in fund in PRC. The following analysis was the Group's top 10 investments at the end of reporting period:

	Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 Dec 2019	Effective interest held as at 31 Dec 2019	Initial investment cost	Market value as at 31 Dec 2019	Realised gain/ (loss) for the year ended 31 Dec 2019	Accumulated unrealised holding gain/ (loss) on revaluation	Percentage to total assets value of the Group as at 31 Dec 2019	Classification	Dividend received/ receivable during the year
						HK$'000	*HK$'000*	*HK$'000*	*HK$'000*			*HK$'000*
1	Aidigong Maternal & Child Health Limited	286	Healthcare investment management businesses, natural health food businesses and advantage growth businesses for children; provision of life healthcare services; investment and financing.	64,526,000	1.68%	52,148	35,489	(195)	(16,659)	0.75%	FVPL	–
2	China Best Group Holding Ltd	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities	32,210,000	0.63%	5,351	5,862	(4,030)	511	0.12%	FVOCI	–

	Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 Dec 2019	Effective interest held as at 31 Dec 2019	Initial investment cost *HK$'000*	Market value as at 31 Dec 2019 *HK$'000*	Realised gain/ (loss) for the year ended 31 Dec 2019 *HK$'000*	Accumulated unrealised holding gain/ (loss) on revaluation *HK$'000*	Percentage to total assets value of the Group as at 31 Dec 2019	Classification	Dividend received/ receivable during the year *HK$'000*
3	Hong Kong Finance Investment Holding Group Ltd	7	Trading of electronic products, financial business and property investment	2,800,000	0.07%	2,660	2,268	(585)	(392)	0.05%	FVPL	–
4	HK Life Sciences and Technologies Group Ltd ("HK Life Sciences")*	8085	Anti-aging and stem cell technology businesses; trading business; money lending business; and securities investment.	169,100,000	2.97%	11,945	1,691	–	(10,254)	0.04%	FVOCI	–
5	Ms Concept Ltd	8447	Provision of catering services in Hong Kong	28,500,000	2.85%	8,045	1,226	(524)	(6,819)	0.03%	FVPL	596
6	Fy Financial (Shenzhen) Co., Ltd. – H Shares	8452	Financial leasing, provision of factoring and advisory services and the trading of medical equipment in the PRC	1,352,000	1.50%	1,583	1,028	(1,553)	(555)	0.02%	FVOCI	230
7	Ming Lam Holdings Limited	1106	Manufacturing and sale of packaging products; Securities trading and other investing activities; Tourism and travel business; Money lending business and Storage and logistic service business	44,500,000	0.30%	5,294	979	(3,527)	(4,315)	0.02%	FVPL	–

	Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 Dec 2019	Effective interest held as at 31 Dec 2019	Initial investment cost HK$'000	Market value as at 31 Dec 2019 HK$'000	Realised gain/ (loss) for the year ended 31 Dec 2019 HK$'000	Accumulated unrealised holding gain/ (loss) on revaluation HK$'000	Percentage to total assets value of the Group as at 31 Dec 2019	Classification	Dividend received/ receivable during the year HK$'000
8	China Tangshang Holdings Limited	674	Exhibition related business, money lending business, food and beverages, property sub-leasing, development and investment business.	3,580,000	0.33%	908	612	(770)	(296)	0.01%	FVOCI	–
9	Hong Kong ChaoShang Group Limited	2322	Engaged in voyage chartering in PRC and Southeast Asia region; Trading of goods in the PRC; loan and factoring financing in Hong Kong and the PRC and Finance leasing	504,000	0.01%	583	252	–	(331)	0.01%	FVPL	–
	Name of unlisted investment		**Brief description of the business**									
10	Guangdong Finance Industry Strategic Fund **		Investment in unlisted equity	N/A	3.45	11,163	11,163	–	–	0.23%	FVPL	–
	Total					99,680	60,570	(11,184)	(39,110)	1.27%	–	826

* HK Life Sciences has been suspended its trading in shares since 5 July 2019. Subsequent to the year-end, the securities of HK Life Sciences were disposed to an independent third party at a consideration of HK$1.69 million.

** The English name is for identification purpose only.
粵財信託新興戰略行業股權投資集合資金信託計劃

FVPL: Financial asset at fair value through Profit or loss

FVOCI: Financial asset at fair value through other comprehensive income

The above top 10 securities investments in aggregate of HK$60.57 million represented 99.90% of the total market value of the portfolio investments.

The Board acknowledges that the performance of securities are affected by the negative effect of the US-China trade war and the recent outbreak of COVID-19 across different regions, as well as the fluid outlook of interest rates. The Group recorded net loss of HK$39.57 million on FVPL for the year 2019. Given the fluctuation in the worldwide financial markets and the impact of COVID-19, the Board expected that the fair value of trading investment may be declined. The Board will continue to identify any investment opportunities and manage the investment portfolio in accordance with the Company's investment objective and policy with a view of gaining good investment yields for our shareholders. In views of the above, the Board will monitor stock market development closely and capture opportunities in a prudent manner so to balance investment risks of the Group.

TRADE AND OTHER RECEIVABLES

As at 31 December 2019, the Group's trade and other receivables were approximately HK$1,189.02 million (31 December 2018: HK$628.12 million). These comprised of: (i) trade receivables of HK$469.63 million, (ii) other receivables of HK$111.70 million, (iii) loan receivables of HK$180.13 million and (iv) deposits and prepayments of HK$427.56 million.

(A) Trade Receivable:

As at 31 December 2019, trade receivables increased by HK$283.41 million to HK$469.63 million which was in line with the increase of revenue. (31 December 2018: HK$186.22 million). The balance mainly included the government on-grid tariff subsidies of HK$248.39 million and electricity sales receivables of HK$33.59 million from local grid companies, representing 60.04% of the trade receivables. The tariff subsidies receivables are settled in accordance with prevailing government policies and prevalent payment trends of Ministry of Finance of the PRC. There is no due date for settlement. The trade receivables from renewable energy business are fully recoverable considering there were no bad debt experiences with the local grid companies in the past and such tariff subsidies are funded by the PRC government. As the Group considers credit risk for such balances to be insignificant, the expected credit loss is minimal. In respect of the debtor balances due from the water supply and the sewage treatment and related construction service projects, these trade receivables have been grouped based on shared credit risk characteristics and the ageing portfolio to measure the expected credit loss. During the year, the net impairment loss recognized on trade receivable recorded HK$1.21 million (FY2018: HK$27,000).

The average turnover period of the trade receivables as at 31 December 2019 were 100 days (31 December 2018: 84 days). The Group allows a credit period of 0 day to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period.

(B) Other receivable

As at 31 December 2019, other receivables increased by HK$2.94 million to HK$111.70 million (31 December 2018: HK$108.76 million) primarily due to payment in advance for repair and maintenance and tax recoverable. At the reporting date, these receivables have been reviewed by management to assess impairment allowances which are based on the evaluation of current creditworthiness, available supportive forward looking information and the collection statistics. The net impairment loss recognised on other receivable was HK$3.19 million (FY2018: HK$5.05 million).

(C) Loan receivable

As at 31 December 2019, loans receivables increased by HK$102.98 million to HK$180.13 million (31 December 2018: HK$77.15 million) represented loans to unrelated parties which are interest-bearing at rates ranging from 4% to 24% per annum and maturity ranging from 1 month to 60 months. The Group has obtained certain security for some of the loans including corporate and asset guarantee provided by the guarantors. The management of the Group made credit assessment from time to time individually with reference to borrowers' financial background, past collection history and evaluation of loan return performance, as well as impairment review of loan receivables. During the year, the net impairment loss recognised on loans receivable amounted to HK$6.94 million (FY2018: HK$1.44 million). Subsequent to the year-end, HK$50.47 million received for the settlement of loans.

(D) Deposits and prepayments

As at 31 December 2019, deposits and prepayments increased by HK$171.56 million to HK$427.56 million (31 December 2018: HK$256.00 million) which mainly represented prepayment relating to the material procurement for building construction projects and the acquisition of projects, deposits paid including glass management contract and the finance lease.

LIABILITIES AND GEARING

As at 31 December 2019, the Group's total liabilities (including both current and non-current) recorded HK$2,863.33 million (31 December 2018: HK$1,798.30 million). The increase of HK$1,065.03 million was attributable to (i) the issuance of new bonds, (ii) addition loan facilities from non-financial institution (iii) acquiring more electricity power generators for the expansion of renewable energy business by entering into finance lease arrangements with leasing companies; (iv) received deposits from customers relating to the sale of properties under development; and (v) the expansion of building construction projects. Except for the issuance of bonds and non-financial institution loan denominated in HK$, borrowings were mainly denominated in RMB.

The Group's gearing ratio as at 31 December 2019 was 60.16% (31 December 2018: 50.50%). The ratio was calculated by dividing total liabilities of HK$2,863.33 million (31 December 2018: HK$1,798.30 million) over total assets of the Group of HK$4,759.73 million (31 December 2018: HK$3,560.71 million).

As at 31 December 2019, the Group's total bank and other borrowings were HK$863.84 million (31 December 2018: HK$698.32 million). For the maturity profile, refer to the table below:

Debt Analysis

	31 December 2019		31 December 2018	
	HK$'000	*%*	*HK$'000*	*%*
Classified by maturity				
– repayable within one year				
Bank borrowings	**45,242**	**5.24**	55,362	7.93
Other loans	**167,029**	**19.33**	40,319	5.77
	212,271	**24.57**	95,681	13.70
Classified by maturity				
– repayable more than one year				
Bank borrowings	**79,040**	**9.15**	57,915	8.30
Other loans	**572,529**	**66.28**	544,725	78.00
	651,569	**75.43**	602,640	86.30
Total bank and other borrowings	**863,840**	**100**	698,321	100
Classified by type of loans				
Secured	**118,700**	**13.74**	113,277	16.22
Unsecured	**745,140**	**86.26**	585,044	83.78
	863,840	**100**	698,321	100
Classified by type of interest				
Fixed rate	**506,451**	**58.63**	435,758	62.40
Variable-rate	**286,475**	**33.16**	200,460	28.71
Interest free rate	**70,914**	**8.21**	62,103	8.89
	863,840	**100**	698,321	100

BONDS AND NON-EQUITY FINANCING

Bond I

On 25 October 2017, the Company entered into the Placing Agreement (the "**Placing Agreement I**") with Well Link Securities Limited (the "**Placing Agent I**"), pursuant to which the Placing Agent I on a best effort basis arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond** I"), within 70 days from the date of the Placing Agreement I. On 13 December 2017, the Company has completed the issuance of the Bond I to the placee(s) in an aggregate principal amount of HK$100 million. As at 31 December 2019, the outstanding Bond I amounted to HK$96.93 million and was classified as an other loan (31 December 2018: HK$98.36 million).

Bond II

On 4 December 2017, the Company entered into the Placing Agreement (the "**Placing Agreement II**") with Ayers Alliance Securities (HK) Limited, Mayfair & Ayers Financial Group Limited (formerly known as "**Mayfair Pacific Financial Group Limited**") and Sincere Securities Limited (the "**Placing Agents II**"), to use its reasonable endeavors to procure independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount not less than HK$100 million (the "**Bond II**"). As at 31 December 2019, the outstanding Bond II amounted to HK$195.04 million and was classified as an other loan (31 December 2018: HK$157.54 million). Up to the date of this report, the Company has issued of the Bond II to the placees in an aggregate principal amount of HK$208.10 million. The placing of Bond II has been completed on 30 May 2019.

Bond III

On 11 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement III**") with Prior Securities Limited (the "**Placing Agent III**") pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of three years in aggregate principal amount of up to HK$100 million ("**Bond III**"). As at 31 December 2019, the outstanding Bond III amounted to HK$18.52 million and was classified as an other loan (31 December 2018: HK$12.78 million). Up to the date of this report, the Company has issued of the Bond III to the placees in an aggregate principal amount of HK$20 million. The placing of Bond III has been completed on 10 January 2020.

Bond IV

On 18 January 2018, the Company entered into a Placing Agreement (the "**Placing Agreement IV**") with Placing Agent III pursuant to which the Placing Agent III on a best effort basis, arranging independent placees to subscribe for 6% coupon unlisted bonds with a term of 90 months in aggregate principal amount of up to HK$100 million ("**Bond IV**"). As at 31 December 2019, the outstanding Bond IV amounted to HK$15.39 million and was classified as an other loan (31 December 2018: HK$15.81 million). Up to the date of this report, the Company has issued of the Bond IV to the placees in an aggregate principal amount of HK$20 million. The placing of Bond IV has been completed on 17 January 2020.

Bond V

On 24 August 2018, the Company entered into the Placing Agreement (the "**Placing Agreement V**") with Mayfair & Ayers Financial Group Limited (the "**Placing Agent V**"), to use its reasonable endeavors to procure independent placees to subscribe for 5% coupon unlisted bonds with a term of one year in aggregate principal amount not less than HK$100 million (the "**Bond V**"). As at 31 December 2019, the outstanding Bond V amounted to HK$13.04 million and was classified as an other loan (31 December 2018: HK$19.42 million). Up to the date of this report, the outstanding principal amounts of Bond V is HK$13.10 million. The placing of Bond V has been completed on 30 August 2019.

Bond VI

On 15 January 2019, the Company entered into the Placing Agreement (the "**Placing Agreement VI**") with the Placing Agent III pursuant to which the Placing Agent III on a best effort basis, to arrange independent Placees to subscribe for 5% per annum for Bonds (A) and 5.5% per annum for Bonds (B) (the "**Bond VI**") with a term of one year and two year respectively, up to an aggregate principal amount of HK$200 million. As at 31 December 2019, the outstanding Bond VI amounted to HK$1.94 million and was classified as an other loan (31 December 2018: Nil). Up to the date of this report, the Company has issued of the Bond VI for Bonds (B) to the placees in an aggregate principal amount of HK$2.00 million. The placing of Bond VI has been completed on 14 January 2020.

Other bonds

Except for the issuance of bonds through the placing agents as above, the Company has also issued other bonds to subscribers in an aggregate principal amount of HK$45 million at a fixed coupon rate in range of 5% to 6% with a term ranging from 2 to 3 years. As at 31 December 2019, the outstanding other bonds amounted to HK$35.98 million and was classified as an other loan (31 December 2018: Nil).

As at 31 December 2019, the aggregate bonds including Bond I, Bond II, Bond III, Bond IV, Bond V, Bond VI and Other bonds recorded in aggregate of HK$376.84 million which were utilized as general working capital, repayment of debts and/or acquisition activities (31 December 2018: HK$303.91 million).

TRADE AND OTHER PAYABLES

As at 31 December 2019, the Group's trade and other payables were approximately HK$585.05 million (31 December 2018: HK$297.37 million). Increase of HK$287.68 million in trade and other payable was mainly due to the expansion of property development and building construction projects. The credit terms of trade payables vary according to the terms agreed with different suppliers.

CAPITAL RAISING AND USE OF PROCEEDS

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

During the FY2019, the Group incurred capital expenditures amounting to HK$171.96 million (FY2018: HK$119.26 million) for acquisition of concession intangible assets.

BUSINESS REVIEW

During the year under review, the Group is engaged in three business segments: (i) provision of water supply, sewage treatment and construction services; (ii) exploitation and sale of renewable energy; and (iii) property investment and development. For the FY2019, the Group recorded a steady growth in its city water supply operation and construction and environment protection segments. For the year under review, the revenue and the segment net profit of the Group amounted to HK$1,189.20 million and HK$267.23 million respectively, representing an increase of 17.98% and 45.12% over the corresponding period of 2018.

The analysis of financial performance by segments is as follows:

	Revenue				Gross Profit			
	2019		2018		**2019**		2018	
	HK$'M	***% to total***	*HK$'M*	*% to total*	***HK$'M***	***G.P. %***	*HK$'M*	*G.P. %*
Water supply business	**174.16**	**14.65**	162.60	16.13	**64.60**	**37.09**	61.5	37.82
Sewage treatment business	**49.73**	**4.18**	47.77	4.74	**14.60**	**29.36**	14.52	30.40
Construction services business	**456.99**	**38.43**	306.48	30.40	**180.44**	**39.48**	140.02	45.69
sub-total	**680.88**	**57.26**	516.85	51.27	**259.64**	**38.13**	216.04	41.80
Exploitation and sale of renewable energy business	**502.92**	**42.29**	433.32	42.99	**236.62**	**47.05**	180.69	41.70
Property development	**5.40**	**0.45**	57.84	5.74	**0.89**	**16.48**	7.43	12.85
Total	**1,189.20**	**100.00**	1,008.01	100.00	**497.15**	**41.81**	404.16	40.09

	Segment net profit/(loss)			
	2019		2018	
	HK$'M	***% to total***	*HK$'M*	*% to total*
Provision of water supply, sewage treatment and construction services	**126.90**	**47.49**	87.1	47.30
Exploitation and sale of renewable energy business	**166.30**	**62.23**	108.5	58.92
Property development	**(25.97)**	**(9.72)**	(11.46)	(6.22)
	267.23	**100.00**	184.14	100.00

1.1 Water supply business

There are three city water supply projects of the Group after the completion of disposal of 35% equity interest of Jinan Hongquan and 30% equity interest of Super Sino (the "**Disposals**"). These projects are well spread in Jiangxi and Shandong provinces. PRC (FY2018: five water supply projects). The daily aggregate water supply capacity was approximately 0.39 million tonne (FY 2018: 1.99 million tonne). Following the Disposals, the number of water supply projects and daily aggregate water supply capacity will be further reduced to three and 390,000 tonne respectively. Total water supply to the Jiangxi and Shandong during the year recorded 89.45 million tonne (FY 2018: 80.59 million tonne), increasing by 10.99% over 2018. For the FY2019, the revenue and gross profit from water supply business amounted to HK$174.16 million and HK$64.60 million respectively, representing 14.65% and 12.99% of the Group's total revenue and total gross profit respectively. Compared with the FY 2018, the revenue and gross profit increased by HK$11.56 million and HK$3.10 million, the improvement was due to the increase in water tariff in Yichun Water and the increase in volume of water sold. The average rates for the water supply ranged from HK$1.75 to HK$2.51 per tonne (2018: from HK$1.78 to HK$2.57 per tonne).

Analysis of water supply projects on hand is as follows:

Project name		Equity interest held by the Company (%)	Designed daily capacity of water supply (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Yichun Water	51	240,000	Jiangxi	2034
2	Yingtan Water	51	100,000	Jiangxi	2038
3	Linyi Fenghuang	60	50,000	Shandong	2037
	Total		390,000		

1.2 Sewage treatment business

There are three sewage treatment projects of the Group located in Jiangxi, Guangdong and Shandong provinces (FY 2018: three sewage treatment projects). The daily aggregate sewage disposal capacity was approximately 190,000 tonne (FY 2018: 170,000 tonne) generating a revenue of HK$49.73 million and gross profit of HK$14.60 million respectively, representing 4.18% and 2.94% of Group's total revenue and total gross profit respectively. The increase in disposal capacity was the completion of second phase of sewage treatment plant in Yichun Fangke. Compared with the FY2018, the revenue and gross profit slightly increased by HK$1.96 million and HK$0.08 million respectively. During the year under review, the Group processed in aggregate of 58.52 million tonne of waste water (FY 2018: 57.49 million tonne), increasing by 1.79% over 2018. Upon the completion of Mingyue Mountain Project and Jinxiang Project, the number of sewage treatment plants will increase to five projects and the daily aggregate sewage disposal capacity will increase by 50,000 tonne to 240,000 tonne. The construction of Mingyue Mountain Project and Jinxiang Project are expected to be completed in June 2020 and in April 2020 respectively. The average rates for sewage treatment ranged from HK$0.68 to HK$1.27 per tonne (FY2018: from HK$0.67 to HK$1.33 per tonne).

Analysis of sewage treatment projects on hand is as follows :

Project name		Equity interest held by the Company %	Designed daily sewage disposal capacity (tonne)	Provincial cities in PRC	Exclusive operating right (expiry in)
1	Jining Haiyuan	70	30,000	Shandong	2036
2	Gaoming Huaxin	70	20,000	Guangdong	2033
3	Yichun Fangke	54.33	140,000	Jiangxi	2035
	Total		190,000		

1.3 Construction services for water supply and sewage treatment infrastructure

Construction services included water meter installation, infrastructure construction and pipeline construction and repair. These were the Group's second major sources of revenue and gross profit contributing HK$456.99 million and HK$180.44 million respectively, representing 38.43% and 36.29% of the Group's total revenue and total gross profit respectively. Compared with the FY2018, the revenue and gross profit increased by HK$150.51 million and HK$40.42 million respectively. The increase in revenue and gross profit was due to the infrastructure construction work for sewage treatment projects and increase of construction activities during the year.

	Revenue				Gross Profit (G.P. ratio)			
	2019 *HK$M*	**%** *to total*	2018 *HK$M*	% *to total*	**2019** *HK$M*	**G.P.** **%**	2018 *HK$M*	G.P. %
Water supply related installation and construction income	**285.47**	**62.47**	242.72	79.20	**160.72**	**56.30**	134.66	55.48
Water supply and sewage treatment infrastructure construction income	**171.52**	**37.53**	63.76	20.80	**19.72**	**11.50**	5.36	8.41
	456.99	**100**	306.48	100	**180.44**	**39.48**	140.02	45.69

1.4 Exploitation and sale of renewable energy business

Up to the date of this report, the Group has 39 solid waste treatment projects, of which 32 have commenced operation with a total installed capacity of 137.3 MW, the remaining 7 are under construction, with an estimated total installed capacity of 16.5 MW. During the year, the Group secured 5 new projects in Nanning, Hainan Sanya, Lingao, Gaizhou and Lianyuan, with an estimated total installed capacity is 16.5 MW.

For the FY2019, the revenue and gross profit recorded HK$502.92 million and HK$236.62 million respectively. Compared with the FY2018, the revenue and gross profit substantial increased by HK$69.60 million and HK$55.93 million respectively. Included in revenue was HK$143.18 million (2018: HK$115.90 million) and HK$298.93 million (2018: HK$234.09 million) derived from the government tariff subsidies and the sale of electricity to local grid companies respectively, representing 28.47% and 59.44% of the total renewable energy revenue respectively. During the year under review, the Group had 29 projects in operation (2018: 25 projects), generating approximately 708,075.2MWh of on-grid electricity which represented an increase of 24.32% over 2018(2018: 569,536.8MWh). As at 31 December 2019, the Group accumulated a total installed capacity of 150.8 MW, representing an increase of 11.70% compared to FY2018 (FY2018: 135 MW). The average electricity rate was HK$0.58 per kilowatt-hour and the average CNG rate was HK$1.91 per m^3 (FY2018: average electricity rate HK$0.60 per kilowatt-hour and the average CNG rate was HK$1.86 per m^3).

	Revenue				Gross Profit/Loss (G.P)			
	2019	**%**	2018	%	**2019**	**G.P.**	2018	G.P.
	HK$'M	***to total***	*HK$'M*	*to total*	***HK$'M***	***%***	*HK$'M*	*%*
Exploitation and sale of renewable energy business								
– Sale of electricity	**443.09**	**88.10**	386.77	89.26	**225.54**	**50.90**	169.38	43.80
– Sale of compressed natural gas	**28.33**	**5.63**	19.52	4.50	**6.64**	**23.44**	(3.09)	N/A
– Service income from collection of landfill gas	**31.50**	**6.27**	27.03	6.24	**4.44**	**14.10**	14.40	53.27
Total	**502.92**	**100**	433.32	100	**236.62**	**47.05**	180.69	41.70

Analysis of renewable energy projects on hand is as follows:

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

	Project name	Provincial cities in PRC/ Indonesia	Business mode	Equity interest held by Company (%)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
23	Fengcheng	Jiangxi	Power generation	100	January 2018	March 2032
24	Anqiu City	Shandong	Power generation	100	March 2018	*Note 1*
25	Danzhou	Hainan	Power generation	100	January 2021	*Note 1*
26	Dongyang	Zhejiang	Power generation	90	March 2018	June 2025
27	Haicheng	Liaoning	Power generation	100	August 2019	*Note 1*
28	Anlu	Hubei	Power generation	90	January 2019	February 2030
29	Laizhou	Shandong	Power generation	100	May 2019	February 2028
30	Jakarta TPST	Jakarta	Power generation	94	February 2018	December 2023
31	Guangzhou Huadu	Guangdong	Power generation	100	January 2020	June 2023
32	Zhijiang	Hubei	Power generation	51	December 2020	*Note 1*
33	Nanning	Guangxi	Power generation	100	March 2020	April 2028
34	Ziyang	Sichun	Power generation	49	March 2020	November 2026
35	Hainan Sanya	Hainan	Power generation	100	March 2019	January 2029
36	Lingao	Hainan	Power generation	100	September 2020	*Note 1*
37	Gaizhou	Liaoning	Power generation	100	2021	*Note 1*
38	Lianyuan	Hunan	Power generation	100	December 2020	May 2034
39	Liling	Hunan	Power generation	100	October 2021	January 2027

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

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

1.5 Property Investment and development

For the FY2019, property development recorded the revenue and gross profit of HK$5.40 million and HK$0.89 million respectively (FY2018: the revenue and gross profit of HK$57.84 million and HK$7.43 million) which was the sale of properties in Yu Jing No. 1 Project* (御景壹號). During the year, there were only 4 residential units and 1 retail shop being sold (FY2018: 180 residential units and 1 retail shop being sold).

In recent years, the Board has been exploring appropriate diversification business opportunities and/or investments to expand the revenue sources and enhance the long-term growth potential of the Group. In 2013, the Group had acquired its first land as a trial run project in Yingtan city, Jiangxi Province, the PRC for the property development of Yu Jing No. 1 Project. With a view to broadening the revenue base and improving the profitability of the Group, in 2018, the Group has changed its investment strategy by acquiring two pieces of lands in cities including Nanjing and Huizhou for the development of Nanjing Space Big Data Industry Base and Honghu Blue Valley Wisdom Square project respectively. The premises of these projects are research and development centers and office buildings, of which part of the development will be leased out to other tenants as investment properties or sold as property development depending on the then property market condition of the related respective cities. In replenishing land reserves, the Group had acquired a property project company named Jiangxi Deyin. All these projects are still under construction or yet to develop. During the year, the Group has continued to acquire premium land reserves by acquiring three pieces of lands in Shangrao City, Jiangxi Province, the PRC for the development of Sanshui Guobinfu Project, Sanshui California Sunshine Real Estate Project and Sanshui Jinlin House project. The Group has launched two projects to the market for pre-sale and gained a good response from the market. This is the new starting point of the Group to step into the property industry. With the optimistic view of the property development market in Mainland China together with the Group's past experience in real estate projects, the Board has determined to classify the property investment and development business as one of the Group's principal business activities in this reporting period. For the future development, the Group will be prudently to acquire premium lands to replenish our land bank.

Land acquisition for the development of property projects

At present, the Group has acquired 7 land projects in the PRC with total site area of approximately 268,136 square meters. The development status of the property projects of the Group is as follows:

	Name of project	Location	Stage of completion	Expected date of completion	Major usage/ purpose	Approximate site area (square meters	Estimated gross floor area after completion (square meters)	Lease term (years)	Group's interest (%)
1.	Nanjing Space Big Data Industry Base（南京空間大數據產業基地）	No. 88, Kangyuan Road, Qilin Science and Technology Innovation Park, Nanjing	Under construction	March 2020	Research and development/ Commercial (50% for sale and 50% for leasing)	26,340	72,853	50	100
2.	Sanshui Guobinfu project*（三水 • 國賓府項目）	East of Gai Zao Yu Ting Avenue, north of Century Avenue B18-02, Shanty Town, Yugan County, Shangrao City, Jiangxi Province	Under construction	March 2021	Residential and commercial/ for sale	30,742	129,103	70 years for Residential and 40 years for commercial	100
3.	Sanshui California Sunshine Real Estate*（三水加州陽光房地產	East of Gai Zao Yu Ting Avenue, south of Siya Road B18-03, Shanty Town, Yugan County, Shangrao City, Jiangxi Province, the PRC	Under construction	August 2022	Residential and commercial/ for sale	10,076	40,940	70 years for Residential and 40 years for commercial	40

	Name of project	Location	Stage of completion	Expected date of completion	Major usage/ purpose	Approximate site area (square meters	Estimated gross floor area after completion (square meters)	Lease term (years)	Group's interest (%)
4.	Sanshui Jinlin House* (三水金麟府)	Western part of Yugan County, south of Century Avenue, east of Xiwu Road, and west of production and living land of Yanxi Village, Yugan County, Shangrao City, Jiangxi Province, the PRC	Yet to develop	March 2023	Residential and commercial/ for sale	68,449	–	70 years for Residential and 40 years for commercial	40
5.	Honghu Blue Valley Wisdom Square* (鴻鵠藍谷智慧廣場)	No. 3 Taihao Road, Block 3 Centre, Gaoxin Science and Technology Industrial, Huinan Road East, Huicheng District, Huizhou City, Guangdong Province, the PRC	Under construction	June 2020	Research and development Centre／Commercial (for sale and/or for lease)	30,544	54,794	50 years	100

	Name of project	Location	Stage of completion	Expected date of completion	Major usage/ purpose	Approximate site area (square meters	Estimated gross floor area after completion (square meters)	Lease term (years)	Group's interest (%)
6.	Jiangxi Deyin * (江西德銀)	East of Jingqi Road and Dongsan Road, Zhongtong Town, Yujiang District, Jiangxi Province, the PRC	Yet to develop	–	Residential and Commercial (for sale)	88,648	–	50 years	51
7.	Water Supply Company Datang Water Quality Monitoring and Control Building Construction* (供水公司大樓水質化驗調度大樓建設)	North side of Xiujiang East Road, Yuanzhou District, Yichun City, Jiangxi Provision, east of Li Yuan Primary School	Yet to develop	December 2020	Other	13,337	40,412.62	50 years	51

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

I. Sanya City Project

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

II. Lingao County Landfill Project

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

III. Gaizhou City Project

On 22 April 2019, Shenzhen New China Water entered into a landfill gas harmless collection and combustion power generation utilization agreement with Gaizhou City Household Garbage Site* (蓋州市生活垃圾處理場). Shenzhen New China Water proposed to invest RMB39.40 million payable into two instalments, RMB28.40 million and RMB11.00 million respectively to develop Gaizhou City Domestic Waste Landfill Site Landfill Gas Power Generation Project (the "**Gaizhou City Project**"). At present, it has taken some domestic garbage from the city of Bayuquan. The daily disposable garbage capacity is 900 tonnes. With the expansion of urban area for the collection of garbage, it is expected that the daily disposable capacity will be increased to 1,200 tonnes. The daily disposable garbage capacity will be further increased to 1,500 tonnes once the construction of second phase of landfill gas plant being completed. The total power generation capacity is amounting to 6,000 kilowatt per hour, 4,000 kilowatt per hour for the first phase and 2,000 kilowatt per hour for the second phase. The exclusive right for the collection period of landfill gas is until the volume of landfill gas generated from Gaizhou landfill reduced to the level of which could not be further utilized. The on-grid electricity price is RMB0.607 per kilowatt hour. The project company has been established in May 2019.

IV. Lianyuan City Project

On 20 May 2019, New China Water (Nanjing) Renewable Resources Investment Co., Ltd.* (新中水（南京）再生資源投資有限公司) ("**New China Water (Nanjing)**"), an indirect wholly-owned subsidiary, entered into a landfill gas power generation utilization agreement with Lianyuan City Environmental Protection Administration* (漣源市市容環境衛生管理局). New China Water (Nanjing) proposed to invest RMB13.40 million with the usage of existing idle machineries to develop Lianyuan City Domestic Waste Landfill Biogas Power Generation Project (the "**Lianyuan City Project**"). No resource fee is required to pay for the first two years' operation. From the third year of operation onwards, there is 3% of annual electricity income payable to local government as a resource fee. The exclusive right for the collection period of landfill gas is 15 years from the effective date of operational agreement. The daily disposable garbage capacity is 350 tonnes. The total power generation capacity is amounting to 2,000 kilowatt per hour with the on-grid electricity price of RMB0.634 per kilowatt hour. Up to the date of this report, the project company has been established in October 2019.

FORMATION OF RENEWABLE ENERGY PROJECT AFTER THE YEAR UNDER REVIEW

V. Liling Yingfeng Project

On 19 January 2020, New China Water (Nanjing) entered into a landfill gas harmless collection and power generation utilization agreement with Liling Yingfeng Zhonglian Environmental Industry Co., Ltd.* (醴陵市盈峰中聯環境產業有限公司). New China Water (Nanjing) proposed to invest RMB15 million to develop Liling Yingfeng Waste Landfill Site Landfill Gas Power Generation Project (the "**Liling Yingfeng Project**"). The daily disposable garbage capacity is 500 tonnes. The exclusive right for the collection period of landfill gas is seven years from the date of this agreement. The total power generation capacity is amounting to 1,780 kilowatt per hour with the on-grid electricity price is RMB0.634 per kilowatt hour. Up to the date of this report, the project company has been established in March 2020.

OTHER MATERIAL EVENT DURING THE YEAR UNDER REVIEW

A. Acquisition of Water Intake Facilities

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

B. Disposal of 30% equity-interest of Super Sino

On 8 June 2018, Billion City Investments Limited, a direct wholly-owned subsidiary of the Company (the "**Vendor**"), the Company as Guarantor and Guangdong Water Group (H.K.) Limited, a subsidiary of Guangdong Investment Limited (the "**Purchaser**") entered into the sale and purchase agreement (the "**Agreement**") pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing 30% of the entire issued share capital of the Super Sino Investment Limited (the "**Target Company**"), and the Sale Loan due to the Vendor by the Target Company amounted to RMB27.48 million as at the date of the Agreement, at a consideration of RMB81.00 million (equivalent to approximately HK$95.78 million). The Vendor received RMB40.50 million as a deposit (equivalent to approximately HK$48.93 million), representing 50% of consideration from the Purchaser. On 28 August 2019, Vendor, Purchaser and Guarantor signed the supplement agreement. The second consideration payment will be paid within 10 days after the execution of supplemental agreement. The disposal of Target Company has been completed in August 2019.

C. Sanshui Guobinfu Project

(i) On 3 June 2019, Yingtan Hongzhu Trading Co., Ltd.* ("**Yingtan Hongzhu**") (鷹潭市宏築貿易有限公司) entered into the Land Use Rights Grant Contract ("**Contract A**") with Yugan County Natural Resources Bureau for the acquisition of the land use rights of the Land at a total consideration of RMB300.08 million (equivalent to approximately HK$351.09 million). The land is located at the East of Gai Zao Yu Ting Avenue, north of Century Avenue B18-02, Shanty Town, Yugan County, Shangrao City, Jiangxi Province* (江西省上饒市余干縣棚戶區改造玉亭大道以東，世紀大道以北B18-02) with parcel No. DEI2019035 (the "**Land A**"). The Land A has a total gross area of approximately 30,742 square meters with approximately 24,593 square meters to be of residential use and approximately 6,149 square meters to be of retail and commercial use. The terms of the land use rights of the Land A for residential use is 70 years and retail and commercial use for 40 years, respectively. According to the Contract A, the Land A shall be utilized for the development of residential, retail and commercial properties and shall commence construction on or before 31 August 2019 and all development shall be completed by 31 August 2022. On 3 June 2019, the Land A had been transferred to Jiangxi Hanhe Corporate Development Company Limited* (江西漢和企業發展有限公司) (the "**Project Company**"), a wholly-owned subsidiary of Yingtan Hongzhu. The construction of premises is planned to be completed in March 2021.

(ii) On 19 July 2019, the Project Company, Yingtan Sanrun Consultancy Company Limited* (鷹潭市三潤諮詢有限公司) (the "**Investor**") and Yingtan Hongzhu, entered into the Co-Operation Agreement in relation to the development and operation of the Sanshui Guobinfu Project* ("**Property Development Project**") situated on the Land A. Pursuant to which the Investor will invest RMB49.5 million (or approximately HK$56.4 million) to the Project Company and would then be interested in 30% of the risk and return of the Property Development Project.

D. Sanshui Jinlin House Project

On 23 December 2019, Yingtan Xiang Rui Property Limited* (鷹潭祥瑞置業有限公司) ("**Yingtan Property**") and Yingtan Sanhao Trading Company Limited* (鷹潭三浩貿易有限公司), Mr. Zhang Qing Bang* (章青邦) and Mr. Li Wei Han* (李衛漢) (collectively known as "**JV Partners**") entered into the JV Agreement pursuant to which Yingtan Property and the JV Partners have agreed to establish the JV Company for the cooperation of carrying out the Sanshui Jinlin House Project (the "**Property Development Project**"). The JV Company will be owned as to 40% by Yingtan Property and in aggregate as to 60% by the JV Partners. Pursuant to the terms of the JV Agreement, the total investment amount would be RMB309 million (equivalent to approximately HK$346.08 million) and will be contributed by Yingtan Property and the JV Partners pursuant to their respective equity interest in the JV Company. On 25 December 2019, Yingtan Property and the JV Partners has successful auction of land use right of the land with total consideration of RMB267.10 million. The JV Company will carry out the Property Development Project which comprise of a plots of land located in Yugan County, the PRC, with total area of 68,448.45 m^2 ("**Land B**"). The Land B is located at the western part of Yugan County, south of Century Avenue, east of Xiwu Road, west of the production and living land of Yanxi Village* (余干縣城西片區，世紀大道以南、西五路東側、嚴溪村生產生活用地西側)with parcel No. DEI2019085. The terms of Land B for residential use is 70 years and commercial use is for 40 years. The Property Development Project will comprise both residential properties and commercial properties. The construction of premises is planned to be completed in May 2023.

E. The deemed disposal of 3.8462% equity interest in New China Water (Nanjing) Renewable Resources Investment Company Limited

On 27 December 2019, the Company, China Water Industry (HK) Limited (the "**Current Shareholder**"), New China Water (Nanjing) (the "**Target Company**"), and SZQH Energy-saving Environmental Protection investment fund management Co., Ltd.* (深圳前海粵財節能環保投資基金管理有限公司) (the "**Investor**") (as the case maybe) entered into the Investment Agreement and the Profit Guarantee Agreement pursuant to which the Investor will invest RMB60 million to the Target Company and in return the registered capital of the Target Company will increase from US$82.88 million to US$86.1952 million. A profit guarantee will also be provided by the Company and Current Shareholder for the three years ending 31 December 2019, 2020 and 2021. After Completion, the Investor will be interested in 3.8462% of the enlarged equity interest in the Target Company and the Target Company will become an indirect non-wholly-owned subsidiary of the Company. On 31 December 2019, the Investor had transferred its rights and obligations in whole under the Investment Agreement and Profit Guarantee Agreement to its associate namely Guangdong Yuecai SME Equity Investment Fund Partnership (Limited Partnership)* 廣東粵財中小企業股權投資基金合夥企業（有限合夥) (the "**Investor I**"). The capital injection by the Investor I has been completed in April 2020.

Pursuant to the Profit Guarantee Agreement, the Target Group shall be audited annually by audit firms with China securities and futures qualifications accredited by China Securities Regulatory Commission (the "**PRC Auditors**") and shall provide the Investor I with audited financial statement of the Target Group within four months after each financial year end. Owing to the outbreak of COVID-19, the Target Group and Investor I mutually agreed the postponement of PRC Auditors to carry out audit field works in the PRC. Further announcement will be made as and when necessary if the actual performance fails to meet the guarantee profit under the terms of the guarantee.

EVENT AFTER THE YEAR UNDER REVIEW

Impact of Novel Coronavirus Outbreak to the Group

After the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group adopted several precautionary measures to protect our workplace from the COVID-19 outbreak by providing clear and timely guidelines to all staffs; following up on all staff's health status, travel history and potentially infectious contacts; and providing extra sanitization products. Also, the Group is closely communicating with the business partners to follow-up different working schedules and planning. Analysis of the impact of COVID-19 outbreak is as follows:

(1) Due to the unexpected COVID-19 outbreak in 2019, almost all provinces and municipalities of the PRC have delayed the resumption of the work of employees and business operation after the Chinese New Year. This has caused a serious adverse impact on the overall market's economic performance in the first few months of 2020 and thereafter. However, due to the main business models of the Group as a provision of water supply and sewage treatment services and the sale of renewable energy, its daily operation has not been affected by COVID-19. The stability performance of these businesses proved that the Group was not suffering any material adverse effects on the financial statements as a result of the COVID-19 outbreak up to the date of this report.

(2) During the year, the Group had classified the sale of commercial and residential units as one of the Group's principal business activities. The impact of COVID-19 in this business segment is set out in page 10 under point 3.4 of the Chairman Statement.

Referring to (1) and (2), the Group will pay close attention to the subsequent development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group for the year ending 31 December 2020.

(3) In addition, due to certain travel restrictions in force in parts PRC to combat the COVID-19 outbreak, the audit works on the FY2019 Annual Results had been affected which caused a delay in publishing the audited annual results and annual report as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "**Listing Rules**").

CONTINGENT LIABILITIES

As at 31 December 2019, the Group has no material contingent liabilities (31 December 2018: Nil).

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$293.72 million in total as at 31 December 2019 (31 December 2018: HK$257.12 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$375.67 million (31 December 2018: HK$263.81 million); and

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

KEY RISKS AND UNCERTAINTIES

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

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

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

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

Risk	Description	Key Risk Mitigations	Changes
Manpower and retention risk	Our Group may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of our Group.	– Provide attractive remuneration package to suitable candidates and personnel. – Create positive and work-life balance working environment to avoid staff dissatisfaction. – Regularly review staff benefit package and compare to market. – Establish clear career path, backup staff plan and rotate staff regularly, if possible, to reduce impact from staff departure.	Increased
Legal and regulatory compliance risk	Our business success and operations could be impacted by the change of respective government laws and regulation in PRC. Any failure to anticipate the trend of regulatory changes or cope with relevant requirement may result in non-compliance of local laws or regulations, leading to not only financial loss but also reputational damage to the Group.	– Actively monitors and pays close attention to the relevant regulatory and legislative developments of the markets it operates. – Consults with regulators of the markets on changes which could impact on our businesses. – Training provided to staff in new staff orientation training. – On-going training to staff to alert them latest regulatory requirements.	Unchanged

Risk	Description	Key Risk Mitigations	Changes
COVID-19 risk	At the end of year 2019, there is outbreak of COVID-19, the Group is exposed to public health risk that mass outbreak among the workplace might occurred, which result in suspension of work of employees and business operation as imposed by the local government.	– Provide anti-epidemic guidelines to all staff – Measure the body temperature of the reporting staff every day – All staff are required to wear masks in our workplace – Provide sanitization products for staff to use among workplace – Quarantine is applied for those staff who identified as potentially infectious contacts	Increased

BUSINESS PROSPECTS

The outlook and future plans of the Group are set out in the Chairman Statement on pages 5 to 10.

NO MATERIAL CHANGE

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

EMPLOYEES

As at FY2019, excluding jointly controlled entities and associates, the Group had 1,406 (2018: 1,332) employees, of which 20 (2018: 13) are Hong Kong employees. During the year, total employee benefit expenses, including directors' emoluments and provident funds, was HK$233.04 million (2018: HK$202.64 million). The increase was caused by the development of property projects and the further expansion of renewable energy projects in 2019. Employees were remunerated on the basis of their performance and experience. Remuneration packages include salary and a year-end discretionary bonus, which are determined with reference to the Group's operating results, market conditions and individual performance. Remuneration packages are normally reviewed as an annual basis by the Remuneration Committee. During the year, all of the Hong Kong employees have participated in the Mandatory Provident Fund Scheme, and a similar benefit scheme is offered to employees in Mainland China. In addition, the Group encourage employees' participation in continuing training programmes, seminars and e-learning through which their career, knowledge and technical skills can be enhanced with the development of individual potentials. The Group also has adopted a Share Option Scheme, for details, refer to pages 77 to 78.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lin Yue Hui ("Mr. Lin"), aged 48, was appointed as an executive Director of the Company in August 2011. He is also the director of certain subsidiaries of the Group. On 21 April 2017, Mr. Lin was appointed as a CEO and was re-designated from a member to a Chairman of Investment Committee of the Company. Mr.Lin was appointed as the Chairman of the Company and a Chairman of Nomination Committee in September 2018. He previously was a partner of Guanghe Law Firm. Mr. Lin obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies in PRC.

Mr. Liu Feng ("Mr. Liu"), aged 57, was appointed as an executive Director of the Company in August 2011. He is a member of each of the Remuneration Committee and the Investment Committee. He is also the director of various subsidiaries of the Group. Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 49, was appointed as an executive Director and Company Secretary of the Company as well as Financial Controller of the Group in October 2006, November 2006 and November 2019 respectively. Ms. Chu holds a Bachelor's Degree of Accounting and a Master's Degree of Corporate Governance. She is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Ms. Chu is also a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Ms. Chu has over 20 years' extensive experience by working in an international audit firm and other listed companies. On 28 November 2018, Ms. Chu has resigned as an independent non-executive Director (the "**INED**") and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of Bisu Technology Group International Limited (stock code:1372). On 4 April 2019, Ms. Chu has resigned as an INED, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of Sino Golf Holdings Limited (stock code: 361). Both of the aforesaid companies are listed on the Main Board of the Stock Exchange.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 45, was appointed as an executive Director of the Company in July 2012. She is the director of various subsidiaries of the Group. Ms. Deng has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie ("Mr. Deng"), a substantial shareholder of the Company.

Mr. Zhong Wei Guang ("Mr. Zhong"), aged 52, was appointed as an executive Director of the Company in September 2018. Mr. Zhong was appointed as Chief Operating Officer in November 2019. He is a member of the Investment Committee and a director of Swan (Huizhou) Investment Company Limited, a subsidiary of the Group. Currently, he serves as a general manager and deputy general manager in Huizhou Junfeng Investments Limited* (惠州俊峰投資有限公司) and Huizhou City Huixinfu Investment Co., Limited* (惠州市惠新福投資有限公司) respectively. Mr. Zhong was a committee member of 9th, 10th and 11th session of the Huizhou City Political Consultative Conference. He has over 20 years of experience in corporate management in PRC.

Mr. Ho Chi Ho ("Mr.Ho"), aged 45, was appointed as an executive Director of the Company in May 2019. He holds a Master degree in Business Administration from the Hong Kong University of Science and Technology and a Bachelor degree in Business Administration (Accounting and Finance) from The University of Hong Kong. He is registered as a Responsible Officer under the Securities and Future Ordinance for Type 6 (advising on corporate finance) regulated activities. Currently, Mr. Ho is an executive Director of the Kingston Financial Group Limited (the "**Kingston Fin**") (stock code: 1031) which is listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). He is responsible for origination and execution of corporate finance transactions including mergers and acquisitions, corporate and capital restructuring, business projects evaluation, and equity and debt fund raising. Mr. Ho has extensive experience in banking and capital markets. From 2003 to 2007 and having rejoined in August 2011 up to present, Mr. Ho is now served as a Managing Director of Kingston Corporate Finance Limited, a wholly owned subsidiary of Kingston Fin and a responsible officer under the Securities and Futures Ordinance for type 6 regulated activity (advising on corporate finance). Mr. Ho has over 20 years of experience in corporate finance advisory with participation in activities including corporate and assets mergers and acquisitions, initial public offerings sponsorship, and equity and debts syndication.

Mr. Zhu Yongjun ("Mr. Zhu"), aged 52, was appointed as an executive Director of the Company in August 2019 。Obtained his undergraduate from Hunan University in 1989 and a master degree of business administration in Peking University in the People's Republic of China in 2005.Currently, Mr. Zhu is the chairman of the board and an executive Director of the New Concepts Holdings Limited (Stock code: 2221) which is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Also, Mr. Zhu is the chairman of the board of Josab Water Solutions AB, a company incorporated under the laws of Sweden, whose shares are listed on the Spotlight Stock Market, a stock exchange in Sweden. Mr. Zhu started his environmental protection career in 2001. From May 2008 to February 2013, Mr. Zhu was an executive Director of EverChina Int'l Holdings Company Limited (the "**EverChina**") (Stock Code: 202) which is listed on the Main Board of the Stock Exchange. From January 2009 to May 2015, he was also the chairman of the board of Heilongjiang Interchina Water Treatment Company Limited (Stock Code: 600187) which is listed on the Shanghai Stock Exchange.

Independent non-executive Directors

Mr. Guo Chao Tian ("Mr. Guo"), aged 74, was appointed as an independent non-executive Director of the Company in June 2012. Mr. Guo is a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Guo has once the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd (深圳市建瓴投資發展有限公司). He has been an independent director of China Jingu International Trust Co., Ltd (中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation (中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 55, was appointed as an INED of the Company in October 2012. Mr. Wong is a Chairman of both of the Audit Committee and Remuneration Committee and a member of the Nomination Committee. Mr. Wong is currently an INED of Interactive Entertainment China Cultural Technology Investments Limited (stock code: 8081) and Worldgate Global Logistics Ltd (stock code: 8292), both companies are listed on the GEM of The Stock Exchange. Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong and a Master's Degree of Corporate Governance from Hong Kong Polytechnic University. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

Ms. Qiu Na ("Ms. Qiu"), aged 41, was appointed as an INED of the Company in September 2016. Ms. Qiu is a member of the Audit Committee. Graduated from the Information Institute of Defense Studies, NDU, PLA* (中國人民解放軍國防信息學院) in 2012, majoring in accountancy. Ms. Qiu is currently a general manager of Huizhou City Huixinfu Property Company Limited. She has extensive experience in human resources management, accounting, corporate administration and property development.

Mr. Lam Cheung Shing, Richard ("Mr. Lam"), aged 61, was appointed as an executive Director of the Company in August 2019. He was admitted to the master degree of business administration in the Chinese University of Hong Kong in 2006. He is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.Currently, Mr. Lam is an executive Director, the deputy chairman and chief executive officer of the EverChina. In August 2001, Mr. Lam was appointed as an executive Director and deputy chief executive officer of the EverChina and was designated as the chairman of the EverChina during the period from May 2009 to June 2009. Mr. Lam spent over ten years in PricewaterhouseCoopers, an international accounting firm and promoted to a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Prior to joining the EverChina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Other than the directorship in the EverChina, currently, Mr. Lam is also an independent non-executive Director of Lajin Entertainment Network Group Limited (Stock code: 8172) which is listed on the GEM Board of the Stock Exchange. Besides, Mr. Lam was appointed as an independent non-executive Director of Eagle Legend Asia Limited (Stock code: 936) during the period from May 2013 to December 2014 and an executive Director of Kai Yuan Holdings Limited (Stock code: 1215) during the period from December 2001 to July 2008 and re-designated as a non-executive Director during the period from July 2008 to November 2008, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Lam was appointed as an executive Director of China Pipe Group Limited (Stock code: 380), which is listed on the Main Board of the Stock Exchange, during the period from June 2007 to February 2009.

SENIOR MANAGEMENT OF THE GROUP

Mr. Liu Hui Quan ("Mr. Liu"), aged 57, was appointed as a Vice President of the Company in January 2012. Mr. Liu is a vice chairman of FoShan City Gaoming Huaxin Sewage Treatment Company Limited* (佛山市高明區華信污水處理有限公司), a director of Yichun Water Industry Group Co., Ltd. (formerly known as Yichun Water Industry Co., Ltd.), a director of Jining City Haiyuan Water Treatment Company Limited* (濟寧市海源水務有限公司) and a director of Guangzhou Hyde Environmental Protection Technology Co. Ltd* (廣州市海德環保科技有限公司), all these companies are the subsidiaries of the Group. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Mr. Huang De Ping ("Mr. Huang"), aged 49, was appointed as the Chief Internal Auditor of the Company in July 2015. Mr. Huang is a qualified PRC certified public accountant and has over ten years of working experience in finance and auditing as well as extensive experience in corporate internal audit and internal control management.

Mr. Liu Wei Qing ("Mr. Liu"), aged 57, graduated from Jiangxi University of Science and Technology (formerly known as Jiangxi Institute of Metallurgy) and holds a bachelor's degree in Engineering and a university lecturer certificate. He joined the Company in April 2012 and was appointed as a Vice President of the Company in May 2017. Currently, Mr. Liu is a vice chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水（南京）再生資源投資有限公司), a vice chairman and director of Shenzhen City New China Water Environmental Technology Limited* (深圳市新中水環保科技有限公司) and a director of Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司), all these companies are the subsidiaries of the Group. He has extensive management work experience in information technology and domestic urban water supply industry, daily waste treatment, and the comprehensive utilization of landfill gas of the landfill site.

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

Mr. Tang Po Shing ("Mr. Tang"), aged 27, graduated from School of Economics and Management of Wuhan University in July 2015 with a bachelor's degree in marketing. He obtained a master's degree in entrepreneurship and innovation management from Loughborough University in October 2017. Mr. Tang joined the Group in November 2017. He previously served as an assistant to the general manager of Shenzhen City Li Sai Industrial Development Limited* (深圳市利賽實業發展有限公司), the deputy general manager of the Investment and Financing Department of the Company, the vice chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited* (新中水（南京）再生資源投資有限公司). Mr. Tang was appointed as a vice president of Company in January 2019 and currently act as the chairman of New China Water (Nanjing) Renewable Resources Investment Company Limited (新中水（南京）再生資源投資有限公司) and a member of Investment Committee. Mr. Tang is the son of Mr. Deng Jun Jie, a substantial shareholder of the Company and the nephew of Ms. Deng, an executive director of the Company.

CORPORATE GOVERNANCE REPORT

OVERVIEW

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

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

For the year ended 31 December 2019, the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), save for the deviations of Code A.2.1 and A.4.1.

A. Directors

A.1 The Board

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 72 Board meetings in the year of 2019. Directors have been consulted to advice the agenda of the Board meeting. For the board regular meeting, at least 14 days notice has been given to the Directors.

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

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

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

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

- The Board holds meetings on a regular basis and will meet on other occasions when a board level decision on a particular matter is required. The individual attendance records of each Director including INEDs at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and annual general meeting ("**AGM**") during the year ended 31 December 2019 are set out below:

Attendance Records

	Number of meetings attended/held					
Name of Directors	Board	Remuneration Committee	Audit Committee	Nomination Committee	Investment Committee	Annual General Meeting
Executives Directors:						
Mr. Lin Yue Hui *(Chairman and CEO)*	72/72	N/A	N/A	6/6	3/3	1/1
Mr. Zhang Wei Guang *(COO)*	66/72	N/A	N/A	N/A	2/3	1/1
Mr. Liu Feng	72/72	9/9	N/A	N/A	3/3	1/1
Ms. Deng Xiao Ting	72/72	N/A	N/A	N/A	N/A	1/1
Ms. Chu Yin Yin, Georgiana	64/72	N/A	N/A	N/A	N/A	1/1
Mr. Ho Chi Ho#	18/42	N/A	N/A	N/A	N/A	1/1
Mr. Zhu Yongjun*	7/17	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors:						
Mr. Guo Chao Tian	66/72	9/9	3/3	6/6	N/A	1/1
Mr. Wong Siu Keung, Joe	72/72	9/9	3/3	6/6	N/A	1/1
Ms. Qiu Na	70/72	N/A	3/3	N/A	N/A	1/1
Mr.Lam Cheung Shing, Richard*	7/17	N/A	N/A	N/A	N/A	N/A

N/A: not applicable

Appointed on 1 May 2019

'* Appointed on 5 August 2019

A.2. Chairman and Chief Executive Officer

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

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

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

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

- The Chairman has held one private meeting with INEDs to discuss major events or issues which incurred in 2019 and the Company's business plan to be developed in 2020. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing major events or issues and provide constructive advice on the direction of Company's future development.

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

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

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

A.3 Board Composition

- The Board comprises a total of 11 members including 7 executive Directors and 4 INEDs. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

- During the year, the Board comprised four INEDs, and two of the INEDs has possessed professional qualifications in accounting and financing field. Mr. Wong Siu Keung, Joe ("**Mr. Wong**") and Mr. Lam Cheung Shing, Richard ("**Mr. Lam**") are certified public accountants.

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

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

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

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

- The names of the directors and their respective biographies are set out on pages 45 to 48 of this annual report.

A.4 Appointment, re-election and removal

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

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

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

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

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

A.5 Nomination Committee

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

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

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

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

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

  (d) to assess the independence of INEDs; and

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

- Nomination Policy

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

  – Reputation for integrity;

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

- Relevant skills and experience to contribute to the Board;

- Commitment in respect of available time and relevant interest;

- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

- Contribution that the candidates can potentially bring to the Board;

- Plans in place for the orderly succession of the Board; and

- Independence criteria as required under the Listing Rules for candidates for INEDs. All candidates must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

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

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

• Board Diversity Policy

- The Company has adopted a board diversity policy (the "**Policy**") in August 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Policy has been available on the Company's website.

- The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge and length of service.

– During the year under review, the Nomination Committee held one meeting to review the composition of the Board and its committees as well as the background and experiences of the Board members and evaluate the contributions of the Board members to the Group in 2019. An analysis of the Board's current composition is set out in the following chart:

Name of director	Title	Age	Gender	Professional/ Industry experience	Length of service on Board (since)
Lin Yue Hui	ED and Chairman and CEO	48	Male	PRC law profession and investment	August 2011
Liu Feng	ED	57	Male	Banking, financing and property operation	August 2011
Deng Xiao Ting	ED	45	Female	Accounting and investment	July 2012
Chu Yin Yin, Georgiana	ED,Company Secretary and Group Financial Controller	49	Female	Accounting, auditing and financing	October 2006
Zhong Wei Guang	ED	52	Male	Financial Investment	September 2018
Ho Chi Ho	ED	45	Male	Corporate finance and investment	May 2019
Zhu Yongjun	ED	52	Male	Environmental protection and investment	August 2019
Wong Siu Keung, Joe	INED	55	Male	Accounting, auditing and financing	October 2012
Guo Chao Tian	INED	74	Male	Economic analysis and investment	June 2012
Qiu Na	INED	41	Female	Accounting and property management	September 2016
Lam Cheung Shing, Richard	INED	61	Male	Accounting, taxation and corporate finance	August 2019

ED: executive Director

INED: Independent non-executive Director

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

- During the year, the Nomination Committee held 6 meetings and the attendance of each member is set out in the section headed "The Board" of this report.

A.6 Responsibilities of the Directors

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

- All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All Directors have confirmed that they have complied with code provision A.6.5 of the CG Code for the year ended 31 December 2019. During the year, Company Secretary has provided the updated materials in relation to amendments to the Listing Rules in 2019 and other rules to the Directors.

  During the year ended 31 December 2019, the Directors participated in the following training:

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

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

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

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

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

A.7 Supply of and access to information

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

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

B Remuneration of Directors and Senior Management

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

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

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

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

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

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

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

- The details of the remuneration of the Directors are set out in note 45 of the consolidated financial statements of this annual report. The band of the emoluments of senior management personnel and related number of members of senior management personnel are as follows:

Emolument band (HK$)	**2019 Number of individuals**	2018 Number of individuals
Nil to 500,000	**1**	2
500,001 to 1,000,000	**3**	4
1,000,001 to 1,500,000	**1**	1

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

- The Group's share option scheme as described on note 42 of this annual report is adopted as the Group's long-term incentive scheme.

- The Remuneration Committee held 9 meetings during the year to review and approve the remuneration of executive Directors including INEDs and senior management. The attendance record of individual members is set out in the section headed "The Board" of this report.

C Accountability and Audit

C.1 Financial Reporting

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

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

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

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on pages 127 to 132 of this annual report.

- A separate statement in the Annual Report on pages 11 to 44 containing a discussion and analysis of the Group's performance.

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

C.2 Risk Management and Internal Control

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

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

Risk Management Structure

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

Board Oversight

The Board

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

Audit Committee

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

Management Risk Management and Leadership

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

Internal audit function and external auditors

Internal Audit Function

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

External Auditor

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

Risk Management Process

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

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

Main features of our risk management and internal control systems

Maintain an effective internal control system at operational level

- Establish clear internal control policies and procedures, clearly define the responsibilities, authorities and accountabilities of each key positions;
- Establish code of conduct, explain the Group's requirements on integrity and ethical value to all staff;
- Establish whistle blowing mechanism, encourage employees to report incidents of misconduct or fraud;
- Establish appropriate level of information technology access rights, avoid leakage of price sensitive information; and
- Establish insider information disclosure policy, including reporting channels and responsible person of disclosure, unified response to external enquiries and obtain advices from professionals or the Stock Exchange of Hong Kong Limited, if necessary.

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

On-going risk monitoring at risk management level

The Management identifies and mitigates major risks according to the risk management process, the identified risks are summarized in risk register and submitted to the Board and Audit Committee for their review together with a 3-year internal control review plan to enable the Board and Audit Committee effectively monitor major risks of the Group and how the risks are managed. Major risks relevant to the Group are shown on pages 40 to 44 of this Report.

Independent review

The Group has established an independent internal control department to conduct an internal control review on an annual basis, the scope of review has covered the period from 1 January 2019 to 31 December 2019. The results of the internal control review has been submitted to the Audit Committee.

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

C.3 Audit Committee

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

The major duties of the Audit Committee include:

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

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

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

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

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

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

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

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

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

For the year under review, the Audit Committee held 4 meetings included the reviewing of the financial statements, annual report and accounts and interim report. The Group's annual report for the year ended 31 December 2019 and internal audit reports have been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

D. Delegation by the Board

D.1 Management functions

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

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

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

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

  - Setting the objectives and targets of the Company;

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

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

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

  - Regularly evaluating businesses and operation performance;

  - Ensuring effective implementation of the Board's decision;

  - Ensuring adequate fundings; and

  - Monitoring performance of the management of the Group.

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

D.2 Board Committees

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

D.3 Corporate Governance Functions

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

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

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

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

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

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

E Communication with shareholders and investors

E.1 Effective communication

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

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

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

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

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

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

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

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

- Dividend Policy

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

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

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

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

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

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

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

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

  h) the Group's expected working capital requirements;

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

j) any other factors that the Board deem appropriate.

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

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

E.2 Shareholders' rights

- Procedures for Shareholders to Convene an EGM

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

- Procedures for Proposing a Person for Election as a Director

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

- Procedures for Directing Shareholders' Enquiries to the Board

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

- Procedures for making proposals at Shareholders' Meetings

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

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

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

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

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

E.3 Voting by poll

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

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

F. Company Secretary

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

INVESTMENT COMMITTEE

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

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

- The major duties of the Investment Committee include:

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

  (b) Review the investment policies and strategy;

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

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

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

- The Investment Committee held 3 meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

AUDITORS' REMUNERATION

For the financial year, the remuneration paid and payable to Crowe (HK) CPA Limited, the auditors of the Company, totalled approximately of HK$2,920,000, of which HK$2,800,000 related to audit services and HK$120,000 to professional services for special engagements, taxation and other non-audit services. The auditors' remuneration has been duly approved by the Audit Committee and there was no disagreement between the Board and the Audit Committee on the selection and appointment of auditor.

COMPLIANCE WITH THE CODE ON THE CORPORATE GOVERNANCE CODE

The Company has complied with the CG Code throughout the financial year ended 31 December 2019 except for deviations from the code provision A.2.1 and A.4.1 as below:

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

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

REPORT OF THE DIRECTORS

The board of Directors of the Company, present their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the activities during the year as required by schedule 5 to the Companies Ordinance, including a description of the key risks and uncertainties facing the Group, an indication of likely future development in the Group's business is set out under the sections of Management Discussion and Analysis on pages 11 to 44, Chairman's Statement on pages 5 to 10 of this Annual Report respectively. An analysis of the Group's performance during the year using financial key performance indicators can be found throughout this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to sustainable future development. We assess the materiality of various environmental, social and governance ("**ESG**") issues and take measures to control the environmental and social impacts on operations. All our businesses are required to comply with all applicable ESG laws and regulations strictly. Discussion on the Group's ESG initiatives, performance and applicable ESG laws and regulations can be found in the section headed "Environmental, Social and Governance Report" on pages 81 to 126 of this annual report.

SEGMENT INFORMATION

Analyses of the Group's segmental information by businesses for the year ended 31 December 2019 are set out in note 8 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Group and the Company are set out in the financial statements on pages 133 to 280.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019. (FY2018: nil)

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the aggregate amount of revenue attribute to the Group's five largest customers was less 30% of the Group's total revenue. The Group's purchase to the five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in note 36 and note 42 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE RESERVE

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 36 to the consolidated financial statements, respectively.

The Company had no reserve available for distribution to shareholders as at 31 December 2019 (31 December 2018: HK$155,292,000, being share premium account less accumulated losses).

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 32 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

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

DIRECTORS

The Directors of the Company were:

Executive Directors:

Mr. Lin Yue Hui *(Chairman and Chief Executive Officer)*
Mr. Zhong Wei Guang *(Chief Operating Officer)*
Mr. Liu Feng
Ms. Deng Xiao Ting
Ms. Chu Yin Yin, Georgiana
Mr. Ho Chi Ho *(appointed on 1 May 2019)*
Mr. Zhu Yongjun *(appointed on 5 August 2019)*

Independent non-executive Directors:

Mr. Wong Siu Keung, Joe
Mr. Guo Chao Tian
Ms. Qiu Na
Mr. Lam Cheung Shing, Richard *(appointed on 5 August 2019)*

In accordance with article 108(A) of the Company's Articles of Association ("**A.A.**"), one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, Mr. Lin Yue Hui, Mr. Liu Feng and Mr. Guo Chao Tian will retire from office by rotation and will offer themselves for re-election at the AGM.

According to Article 112 of the A.A., Mr. Zhu Yongjun and Mr. Lam Cheung Shing, Richard who were appointed by the Board, shall hold office only until the AGM and shall be eligible for re-election. Mr. Zhu Yongjun and Mr. Lam Cheung Shing, Richard being eligible, will offer themselves for re-election at the AGM.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the Directors and senior management of the Company are set out on pages 45 to 48 of the Annual Report.

EMOLUMENT POLICY

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

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2019, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming AGM as required by the A.A. of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2019, the interests and short positions of each Director and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the securities and futures ordinance ("**SFO**") which (a) had been notified of the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions in which directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for securities transactions by Directors of listed companies (the "**Model Code**") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

Interest in the Shares

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

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2019.

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

Save as disclosed above, as at 31 December 2019, none of the Directors or Chief Executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (within meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part xv of the SFO (including interests and short positions which directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section "Directors' and Chief Executive's interests in securities" above had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate Percentage of the issued share capital of the Company
Honghu Capital Co. Ltd.	Beneficial owner	277,788,000 (L) *(Note 1)*	17.40%
Step Wide Investment Limited	Beneficial owner	160,000,000 (L) *(Note 2)*	10.02%

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

Note 2: These shares are held by Step Wide Investment Limited ("**Step Wide**") which Mr. Wong Hin Shek ("**Mr. Wong**") is the beneficial owner. Mr. Wong is deemed to be interested in shares held by Step Wide by virtues of the SFO.

Note 3: The shareholding percentage in the company is calculated on the basis of 1,596,539,766 shares in issue as at 31 December 2019.

Note 4: The letter "L" denotes a long position in shares.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

PERMITTED INDEMNITY PROVISION

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

EQUITY-LINKED AGREEMENTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 47 to the financial statements. The related party transactions mentioned in note was not connected transaction as defined in the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

SHARE OPTION SCHEME

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

(i) Purpose

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

(ii) Qualifying participants

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

(iii) Maximum number of shares

The scheme mandate limit for the Scheme allows the Company to issue a maximum of 159,653,976 share options under the Scheme, representing 10.00% of the issued share capital of 1,596,539,766 shares of the Company as at 31 December 2019.

(iv) Maximum entitlement of each eligible participant

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

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

(v) Option period

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

(vi) Acceptance of offer

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

(vii) Subscription price

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

(viii) The remaining life of the Scheme

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

Save for the Scheme, the Company did not have any other share option scheme as at 31 December 2019. From the date of the Scheme being adopted up to 31 December 2019, no options had been granted and remained outstanding under the Scheme of the Company.

PRE-EMPTIVE RIGHTS

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

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor its subsidiaries purchased, redeemed or sold of the Company's listed securities.

RETIREMENT SCHEMES

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

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 48 to the consolidated financial statements.

SUFFICIENT OF PUBLIC FLOAT

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

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an Audit Committee comprising three INEDs of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2019. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 63 of this Annual Report.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2018 Annual Report required to be disclosed were as follows:

(i) the updated biographic details of the Directors are set out on pages 45 to 47 of the Annual Report;

(ii) Mr. Ho Chi Ho was appointed as an executive Director of the Company with effect from 1 May 2019;

(iii) Mr. Zhu Yongjun and Mr. Lam Cheung Shing, Richard were appointed as an executive Director and independent non-executive Director of the Company with effect from 5 August 2019,

(iv) Mr. Zheng Wei Guang, currently an executive Director of the Company, was appointed as Chief Operating Officer with effect from 1 November 2019; and

(v) Ms. Chu Yin Yin Georgiana, currently an executive Director and Company Secretary of the Company, was appointed as Group Financial Controller with effect from 7 November 2019.

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

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company's Corporate Governance principles and practices are set out in the Corporate Governance Report on page 49 to 70 of this Annual Report.

CONFIRMATION OF INDEPENDENCE

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

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Wednesday, 24 June 2020. Notice of AGM will be published on the websites of the Company (www.chinawaterind.com) and the Stock Exchange (www.hkexnews.hk), and will be despatched to the shareholders of the Company within the prescribed time and in such manner as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

In order to determine shareholders' eligibility to attend and vote at the forthcoming AGM of the Company to be held on Wednesday, 24 June 2020, the register of members of the Company will be closed from Friday, 19 June 2020 to Wednesday, 24 June 2020 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for entitlement to attend the AGM, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration, not later than 4:00 p.m. on Thursday, 18 June 2020.

AUDITORS

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

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

Hong Kong, 24 April 2020

2019 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Purpose of the Report

This is the sixth Environmental, Social and Governance ("**ESG**") Report (the "**Report**") of China Water Industry Group Limited ("**China Water**", "**the Company**", and together with its subsidiaries, collectively known as "the Group", "**We**"). The Report sets out our policies, approaches and data in respect of environmental and social sustainable development in 2019. It emphasises on the Group's principal business and the aspects important to our stakeholders in order to provide stakeholders with more detailed and valuable information for reference and respond to the concerns from different stakeholders in a more comprehensive manner. For details regarding the corporate governance of the Group in 2019, please refer to the section headed "Corporate Governance Report" in this annual report.

Reporting Year and Scope

This Report covers the reporting period from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"). Unless otherwise stated, the scope of this Report covers the Group's core business segments including (i) provision of water supply and sewage treatment services; (ii) construction of water supply and sewage treatment infrastructure; and (iii) exploitation and sale of renewable energy in the People's Republic of China (the "**PRC**").

Reporting Standard

This Report is prepared in accordance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKEX**"), and complies with the disclosure obligations under the "comply or explain" provisions contained in the ESG Reporting Guide. Reference to the ESG Reporting Guide is appended to this Report for stakeholders' easy review. This Report is approved by the Board of Directors on 24 April 2020.

Access to The Report

This Report is part of the Group's annual report and is available in both Chinese and English. It is available for download and access on the Group's website at http://www.chinawaterind.com and the website of HKEX at www.hkex.com.hk.

Contact Information

To improve the quality of this Report, we sincerely welcome your comments and suggestions regarding this Report and our sustainability performance. Please send your feedback to info@chinawaterind.com.

HIGHLIGHTS OF THE YEAR 2019

Water supply business

89,445,291 tonnes of clean water

Supplying clean water to **3** cities

Exploitation and sale of renewable energy business

738,980,168 kWh of green electricity generated

As at 31 December 2019, **29** landfill-gas-to-power projects have been in operation

Equivalent to **4,372,140** tonnes of carbon dioxide emissions avoided

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

Sewage treatment business

55,060,204 tonnes of sewage treated

3 sewage treatment projects have been in operation

9,593 tonnes of Chemical Oxygen Demand ("**COD**") reduced.

Water hypoxia that hinders water eco-system was prevented by alleviating the amount of organic waste in water

AWARDS AND RECOGNITIONS

Received by	Award/Recognition	Organiser
China Water Industry Group Limited	2019 Leading Enterprise in Strategic and Emerging Environmental Industries in China (中國戰略性新興環保產業2019年度領軍企業獎)	China Envirunion of Strategic Engineering Industries (中國戰略性新興產業環保聯盟)
China Water Industry Group Limited	2019 Solid Waste Segmentation Leader and Single Ability Leading Enterprise – Leading Enterprise for the Year in Collection and Utilisation of Landfill Gas (2019年度固廢細分領域領跑及單項能力領跑企業－填埋氣收集及資源化利用年度領跑企業大獎)	E20 Environment Platform (E20環境平台) and China Urban Construction Design & Research Institute Co. Ltd.* (中國城市建設研究院有限公司)
Yichun Water Industry Group Co., Ltd (formerly known as Yichun Water Industry Co., Ltd)	2017-2018 Youth Civilisation Unit of Yichun City (2017-2018年度宜春市青年文明號)	Youth Civilisation Unit Organizing Committee of Yichun City (宜春市創建青年文明號活動組委會)
Yingtan Water Supply Group Co. Ltd.	2019 Jiangxi Province 03 Project and 5G Project Qualification Certificate (2019年江西省03專項及5G項目入選證書)	Leading Office of Pilot Demonstrative Project for Promoting the Transfer and Conversion of Major Achievements of New Generation Broadband Mobile Communication Network Technology in Jiangxi Province (江西省推進新一代寬帶移動通信網絡科技重大專項成果轉移轉化試點示範工作領導小組辦公室)

INDUSTRY PARTICIPATION

We actively participate in different industry activities to exchange knowledge with many outstanding industry participants and absorb diverse ideas and innovative concepts in the industry, thereby achieving mutual growth with industry peers.

Participating Company	Event	Organiser
China Water Industry Group Limited	2019 Shenzhen (International) High-Tech Industrial Park Fair (2019深圳（國際）高科技產業園區博覽會)	Shenzhen Industrial Park Association (深圳市產業園區協會) and Guangdong High-Tech Industry Chamber (廣東高科技產業商會)
China Water Industry Group Limited	6th Solid Waste Forum of China Envirunion (中國環聯第六屆固廢論壇)	China Envirunion of Strategic Engineering Industries (中國戰略性新興產業環保聯盟)
China Water Industry Group Limited	2019 (13th) Solid Waste Strategy Forum (2019（第十三屆）固廢戰略論壇)	E20 Environment Platform (E20環境平台) and China Urban Construction Design & Research Institute Co. Ltd.* (中國城市建設研究院有限公司)
China Water Industry Group Limited	Technology Study and Cooperative Exchange with Hitachi Capital Corporation (日立金融株式會社技術考察及合作交流)	Hitachi Capital (Hong Kong) Limited (日立金融（香港）有限公司)
Yingtan Water Supply Group Co. Ltd.	Promotional activity of "Enhancing ability of disaster prevention and response to safeguard human life" ("提高災害防治能力，構建生命安全防線"宣傳活動)	Jointly organised by Yingtan Disaster Relief Office (鷹潭市減災辦), Yuehu District Disaster Relief Office (月湖區減災辦) and other relevant entities
Yingtan Water Supply Group Co. Ltd.	Hotline for Improving Party Works and Work Discipline (黨風政風熱線)	Yingtan Anti-Corruption Office (鷹潭市廉政辦) and Yingtan Broadcasting and TV Station (鷹潭市廣播電視台)

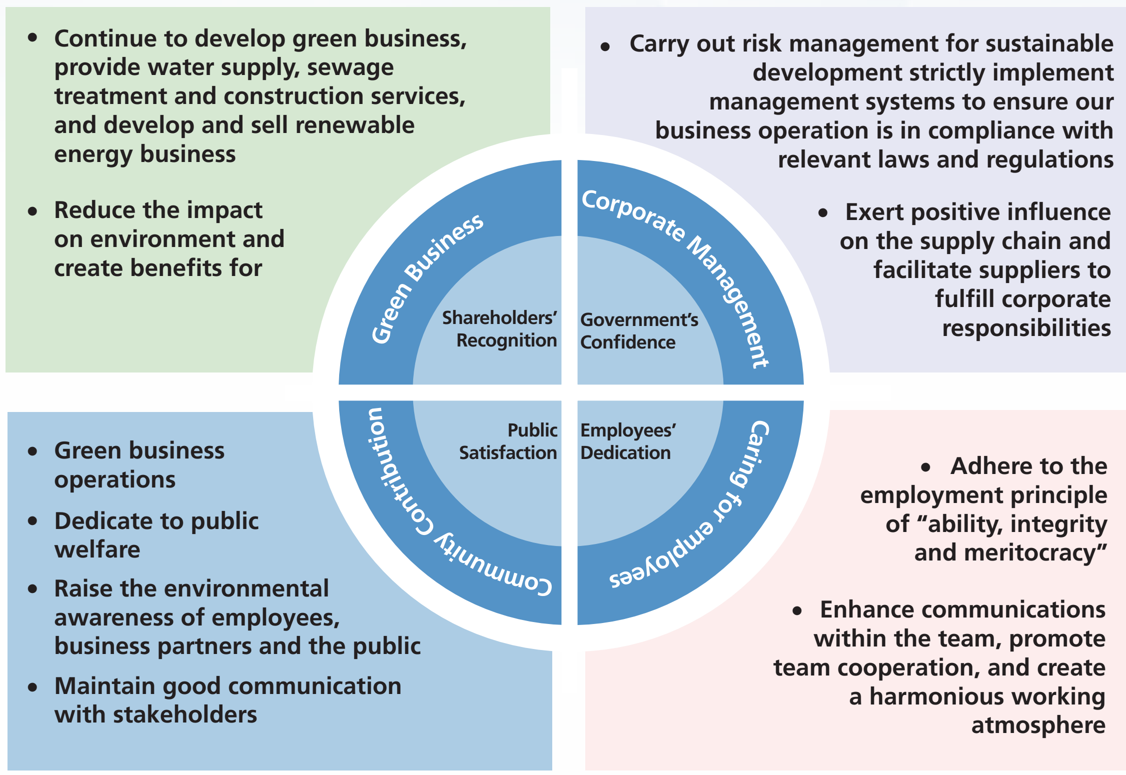
OUR APPROACH TO SUSTAINABILITY

Our Tenet, Mission, Vision and Core Values

Company tenet	The Group is a professional investment and operation management service provider for municipal water service and environmental new energy which specialises in investment and operation of water and environmental protection projects
Company mission	We assume the social responsibilities of providing clean water to the public, improving the living environment and creating value for the society
Company vision	Headquartered in China, we aspire to expand our presence to Asia and across the world
Core values	We strive to provide services that embrace government's confidence, public satisfaction, shareholders' recognition and employees' dedication

We strive to formulate long-term sustainable development strategy to support the national "clean and low carbon" policy and realise our corporate core values through green business, corporate management, caring for employees and community contributions. The practice of corporate social responsibility is a long way to go. However, we firmly believe that by adhering to the idea of bringing positive impacts to the environment and society, we can create mutual benefits for the Corporate and the society by carrying out environmental protection works, caring for our employees and making contribution to the society in an active and diligent manner.

Key areas of core values and practices of the Group



ENVIRONMENTAL SOCIAL AND GOVERNANCE RISK MANAGEMENT

To respond to the ever-changing market environment, we have adopted a series of risk management procedures. The Board determines the Group's business strategy and risk tolerance, and is responsible for establishing, maintaining and assessing the risk management and internal control system. The management is responsible for risk management of business operation, and collects internal and external data and opinions of stakeholders through different channels, historical data, future forecast and information about other relevant domestic and overseas companies, in order to identify, assess and respond to the risks and opportunities faced by the Group including environmental, social and governance risks and report identified risks and changes to the Board. The Board considers environmental, social and governance risks as strategic issues. As such, the Group as formulated a series of environmental, social and governance risk policies in 2019 to provide further guidance and regulation on management of environmental, social and governance risks.

Environmental, Social and Governance Risk Policies

Objective setting	Define the importance of key ESG issues to the Group.
Risk assessment	Identify ESG risks and assess their significance and frequency to the Group.
Integration of policies and measures into business	Establish strategical policies and measures, and integrate them into the business processes to achieve different objectives.
Stakeholder communications	Communicate with and involve stakeholders in the ESG reporting process, collect their opinion to enhance the Group's ESG strategy and long-term value creation.
Board oversight	The Board (or a committee delegated) should include competent personnel, be assigned sufficient power and responsibility and establish proper procedures to oversee long-term ESG strategy and its execution.

Stakeholder Engagement

Our main stakeholders include employees, governments, shareholders, business partners, non-governmental organisations and communities, etc. In order to achieve sustainable development, we have established a mechanism for cooperation and communication with stakeholders through diverse channels. Stakeholder engagement is an integral part in formulating our sustainability strategy as deep understanding of their opinions and expectation for the Group may help us address existing and potential risks and opportunities in the market which is greatly beneficial to the Group's business development.

Materiality Assessment

In order to define the reporting content and information in a more targeted manner, based on the materiality reporting principle set out in the ESG Reporting Guide, we determine the environmental and social issues that may cause substantial effect on the assessment and decision-making of the stakeholders and have material impact on the Group's development.

Our procedures:

1) Sort out the ESG Reporting Guide, stakeholders' opinions, internal management report, media coverage, industry trend and other relevant information and analysis to identify all relevant issues that may be included in the report

2) Engage third party consulting firm to conduct online questionnaire survey for stakeholders, and invite the Group's stakeholders in different sectors to rate the importance of identified economic, environmental and social issues (rating from 1 to 6 with 1 being not important at all and 6 being very important)

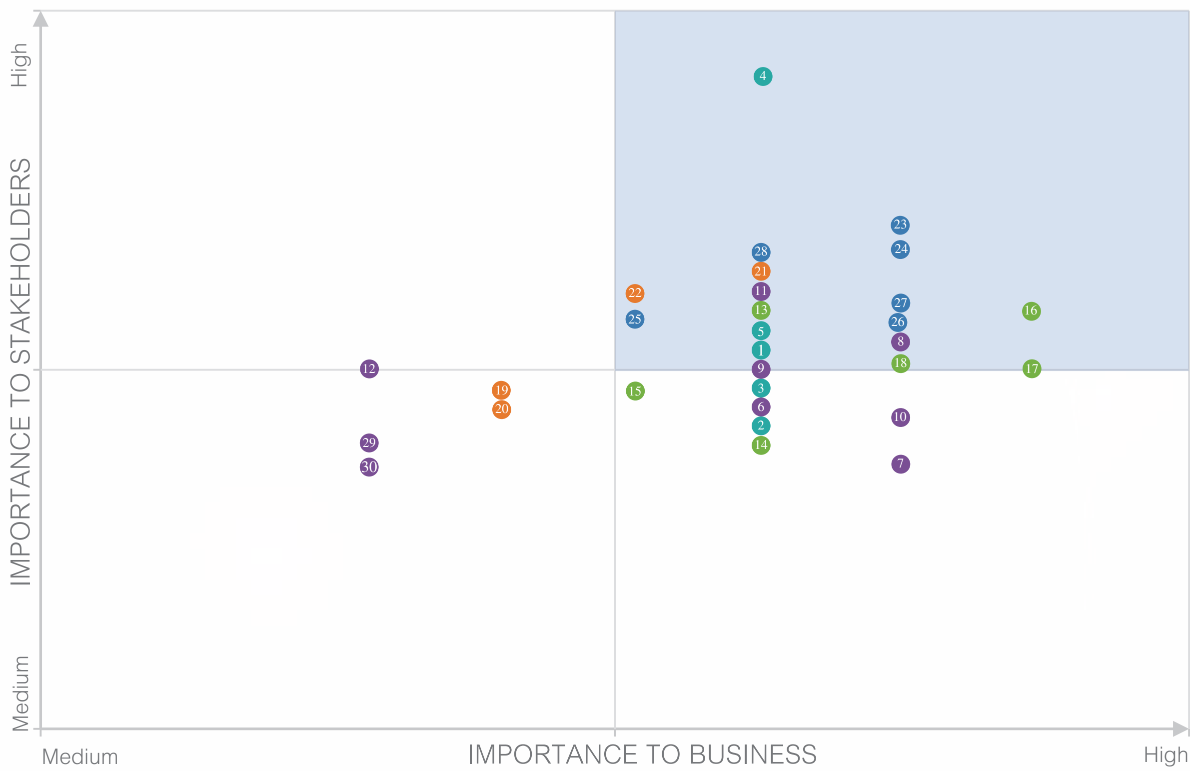
3) The Group's management will assess the importance of relevant issues to the Group's business from a commercial perspective

4) Consolidate the ratings from internal and external stakeholders and prepare the materiality matrix, in particular, the relevant issues are arranged vertically based on stakeholders' ratings with high ratings being on top, and horizontally based on management's assessment with most important being at the right

5) Determine the economic, environmental and social issues that are most concerned by the Group and the stakeholders and create the outline for the report

We believe that such procedures may enable us to determine and prioritise the issues that are concerned by both the Group and the stakeholders. During the year, a total of 18 issues are determined to be material to us and our stakeholders which become the disclosure focuses of this Report.

Materiality Matrix



Issues concerned

1.	Sewage Treatment
2.	Sludge Handling
3.	Solid Waste Disposal
4.	Water Supply
5.	Environmental Testing Technology
6.	Diversification and Equal Opportunities
7.	Employee Turnover
8.	Occupational Safety and Health
9.	Training and Development
10.	Child and Forced Labour Prevention
11.	Employment Relationship and Communication with Employees
12.	Employee Benefits/Recreation
13.	Sewage Discharge
14.	Impact to Greenhouse Effect
15.	Air Emissions
16.	Treatment of Hazardous Wastes
17.	Treatment of Domestic Wastes and Other Non-hazardous Wastes
18.	Use of Natural Resources
19.	Supplier Management Procedures
20.	Supplier Environmental and Social Assessment
21.	Anti-Fraud and Corruption
22.	Emergency Response Plan
23.	Product/Service Safety
24.	Product/Service Efficiency and Benefits
25.	Complaints Handling
26.	Protection of Intellectual Property Rights
27.	Customer/Consumer Privacy Protection
28.	Research and Development
29.	Participation in Voluntary work
30.	Donations

CORPORATE MANAGEMENT

Business Integrity

The Group upholds the business value of integrity and fairness and requires all employees to perform duties based on ethical standards of honesty and integrity with a view to establishing a long-term, honest, trustworthy and reliable business relationship with all business partners. Based on the "Provisions of the Criminal Law of the People's Republic of China" (《中華人民共和國刑法》), "Company Law of the People's Republic of China" (《中華人民共和國公司法》), "Anti-Unfair Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》) and other relevant laws and regulations, we formulate and implement a series of internal procedures and guidelines, and set out the Group's requirements on ethical and professional conduct in the employees' handbook. We adopt zero tolerance approach to bribery, extortion, fraud and money laundering, deal with any misconduct seriously and take disciplinary actions against the violators. We also attach importance to cultivating employees' integrity and moral value and hope that our employees can voluntarily report and refuse any dishonest offer of money or gift. In addition, in order to protect the whistleblowers from unfair dismissal, oppression or inappropriate disciplinary action, the privacy of and information provided by the whistleblowers will be kept in strict confidence.

Some project companies have formulated the "Procurement and Reimbursement Management Measures", "Financial Management System" and internal audit system, and conducted comprehensive audits on management, finance and operations to effectively prevent bribery, extortion, fraud, and money laundering. In 2019, the Group was not aware that its business and employees were involved in any material non-compliance with laws and regulations related to bribery, extortion, fraud and money laundering.

As our water supply project company collects user information, we require our employees to handle confidential documents that contain customers' information with due care and diligence. We have established relevant security management system and the office storing sensitive information is under surveillance where its access keys are kept by designated staff. Important computers and files are encrypted with passwords being managed by relevant personnel to safeguard customers' information. During the reporting period, we did not receive any cases of customer privacy infringement or loss of customers' information or relevant confirmed complaints.

ANTI-CORRUPTION

In response to the "Anti-Crime" special task in Yichun City, Yichun Water Industry Group Co., Ltd. ("Yichun Water") actively carried out a series of activities to encourage all employees to actively participate in "anti-crime" actions and report any criminal acts.

Yichun Water convened the special deployment meeting led by the company management to convey the purpose, main content and work arrangement of the "Anti-Crime" special task to all employees, so that they can fully understand the importance of such task. In addition, Yichun Water also formulated the 2019 "Anti-Crime" Special Task Implementation Plan of Yichun Water Industry Co., Limited (《宜春市供水有限公司2019 年"掃黑除惡"專項鬥爭工作實施方案》), and prepared the task list which set out the specific projects, timetable and responsible persons to facilitate the implementation. It also conducted comprehensive investigation on potential criminal acts in respect of construction, operation and management of water supply projects and other matters related to urban water supply management, and reported to senior management once every three days and on a monthly basis. Moreover, Yichun Water utilised new media to promote the "Anti-Crime" special task by setting up a special column on its website and showing "Anti-Crime" slogans on electronic displays. It also compiled the "Anti-Crime" Textbook (《"掃黑除惡"知識讀本》) which contains the content of 60 Questions about "Anti-Crime" Special Task (《"掃黑除惡"專項鬥爭相關知識60 問》), How to Combat Criminal Acts (《"掃黑除惡"應知應會》) and "Anti-Crime" Special Task Brochure (《"掃黑除惡"專項鬥爭工作宣傳手 》), and distributed such textbook to all employees to encourage everyone at work to pay attention to and participate in such task.

Supplier Management

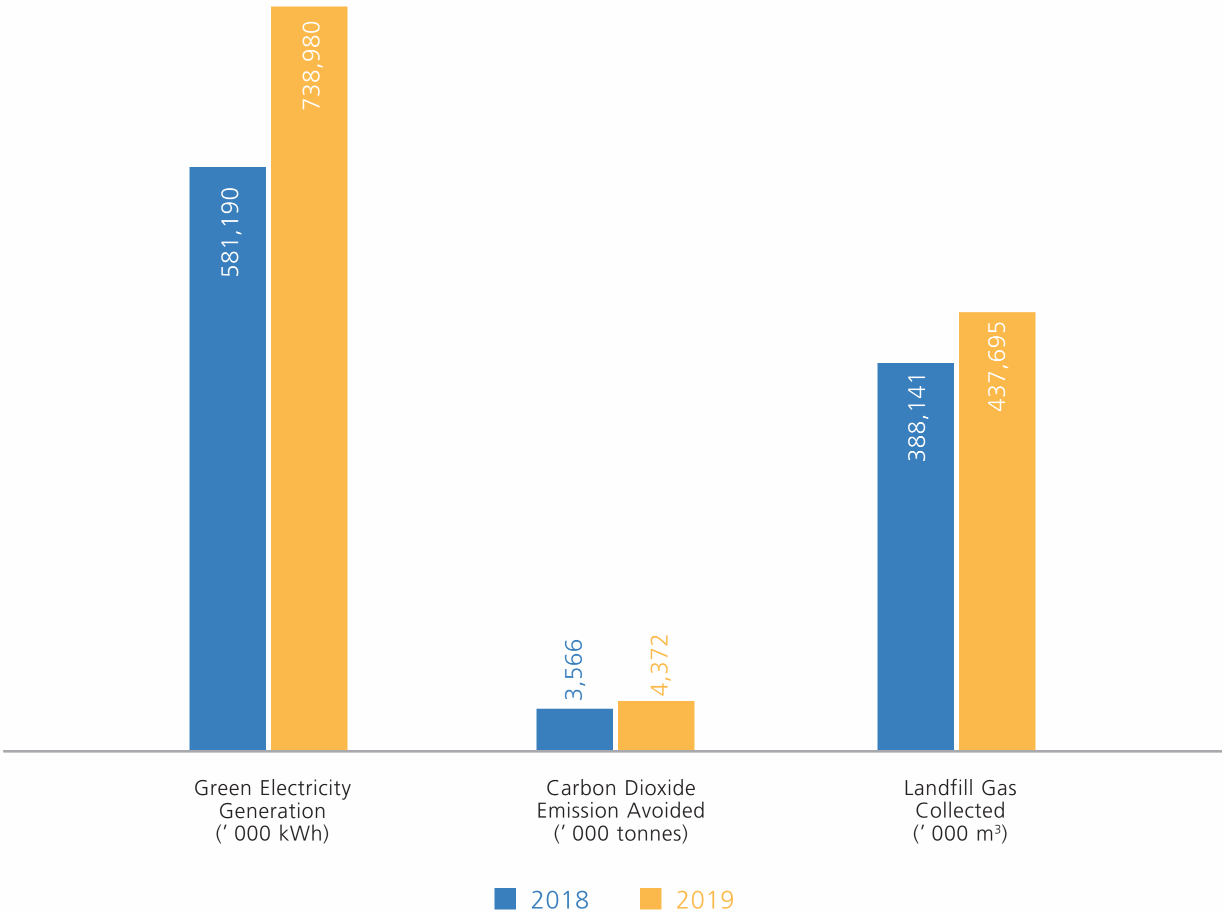
As our business is closely related to the well-being of general public, we are committed to cooperating with high quality suppliers. We have formulated supplier management standards to enable our project companies to select suppliers objectively in terms of company qualification, technology, quality, reputation, business performance, delivery capacity and after-sale services. We also visit suppliers' places of operation on a regular basis to assess their compliance, and conduct continuous investigation, analysis and screening to select long-term and stable suppliers to be included in the List of Qualified Suppliers. Suppliers who fail to meet the supply requirements for multiple times will be removed from the list to ensure that we maintain a high quality supplier management system, thereby guaranteeing the quality of raw material.

In addition to general service performance of suppliers, we also consider their sustainability performance, including business ethics. The Group adheres to zero tolerance for child labour and forced labour, and resolutely upholds human rights and labour rights. We avoid the use of child labour and forced labour, and expect our suppliers to adhere to the same principles, in order to create a harmonious, fair and sustainable society.

GREEN BUSINESS

In over a decade since its establishment, the Group expanded from the traditional water service sector at the beginning to environmental protection, new energy and other business sectors. With a geographical coverage of various provinces and cities in China including Guangdong, Jiangxi, Chengdu and Foshan, the Group provides a full range of comprehensive solutions to facilitate the development of environmental protection industry in China.

Exploitation and sale of renewable energy



"Guidance on Establishment of Target Oriented System for Development and Utilisation of Renewable Energy of National Energy Administration" (《國家能源局關於建立可再生能源開發利用目標引導制度的指導意見》) was designed to optimise the national energy structure and specify the responsibilities and obligations for development and utilisation of renewable energy in different areas to ensure that the objectives of saving energy, reducing emission, increasing proportion of non-fossil energy and achieving sustainable development can be met. It also set out the target proportion of renewable energy in total energy consumption of different provinces, regions and cities in 2020 as well as the target proportion of non-hydropower renewable energy in total electricity consumption in China to encourage the use of renewable energy. The Group has been actively facilitating the implementation of national environmental protection policies with a vision of "creating an environment of blue sky, green land and clear water". While pursuing economic and social development, the Group also pays attention to maintaining the harmony between human and nature and implements President Xi Jinping's idea of "lucid waters and lush mountains are invaluable assets".

Utilisation of municipal waste energy is an emerging energy industry, and our renewable energy projects are in line with the national policies related to energy saving and environmental protection. We install effective biogas collection system in landfills to fully utilise the biogas produced from anaerobic fermentation of organic wastes at the landfills for power generation, which makes the landfills self-sufficient in electricity, reduces the use of fossil fuels for power generation, and prevent odour pollution of landfill gas caused to nearby residents, thereby creating economic benefits for the society and making contribution to environmental protection. Organic matter is a kind of biomass which contains solar energy absorbed through photosynthesis. As such, biogas produced from decomposition of organic matter is considered as a renewable energy. As at 31 December 2019, the Group has been operating 29 landfill gas power generation projects in various provinces and municipalities including Jiangxi, Hunan, Shaanxi, Hubei, Hainan, Jiangxi, Sichuan, Zhejiang, Chongqing, Shandong, Hebei, Guangxi, Guangdong, etc. to deliver power to urban power grid, and generated a total of 738,980,168 kWh of green electricity throughout the year which increased the proportion of clean energy. In addition, we have been operating a compressed natural gas projects in Guangdong which generated a total of 14,570,000 m^3 of compressed natural gas throughout the year.

Biogas, if mixed with air in certain proportions, will become explosive gas, and the risk of explosion resulting from accumulation of biogas can be mitigated by burning off residual biogas. In addition, the main component of landfill gas is methane, which is a greenhouse gas, and the greenhouse effect caused by one kilogram of methane is 23 times stronger than one kilogram of carbon dioxide. As such, burning methane can reduce the greenhouse effect caused by it. Landfill biogas may migrate out of the landfill through underground paths, and our biogas collection system can reduce such migration of biogas. In 2019, a total of 437,695,231 m^3 of landfill gas was collected and equivalent to 4,372,140 tonnes of carbon dioxide emission was avoided because of our projects.

In order to realise landfill gas power generation and grid connection, we install voltage stabilisers in the generator sets in accordance with the Regulations on Electricity regulation (《電力監管條例》) and the Regulations on the Administration of Power Business Licenses (《電力業務許可證管理規定》) and promptly contact the responsible power grid dispatchers to ensure timely and safe grid connection operation.

The following is the accumulated achievement of our renewable energy business since our first waste utilisation project commenced operation in 2014:

Generated
1,978,166,726
kWh of green electricity

Generated
74,242,593
m^3 of compressed natural gas

Equivalent to
15,033,022
tonnes of carbon dioxide emission avoided

Collected
1,442,977,464
m^3 of landfill gas

Sewage treatment

Since 2019, policies on improving the quality and efficiency of sewage treatment have been introduced. The improvement of quality and efficiency is not only a transformation of sewage treatment plants or a simple diversion of sewage and rain. The State has formulated the "Three-Year Action Plan on Quality and Efficiency Improvement for Urban Wastewater Treatment (2019-2021)" (《城鎮污水處理提質增效三年行動方案(2019—2021年)》), which requires built-up areas in cities at prefecture level and above to generally achieve zero direct discharge of domestic sewage within three years, and basically eliminate unencumbered areas of domestic sewage collection and treatment facilities and black and odourous water in urban villages, old towns and rural-urban fringe zones, to fully cover, fully collect and fully deal with sewage water, and improve the living environment of residents. The Group cares for the society and strives to serve the community through good sewage treatment service. Currently, the Group has 3 sewage treatment projects, located in Jiangxi's Yichun, Shandong's Jining and Guangdong's Foshan. The following is the achievement of our sewage treatment business in 2019:

Daily aggregate sewage disposal capacity is approximately **190,000** tonnes.
55,060,204 tonnes of sewage treated
9,593 tonnes of COD reduced

Accumulated achievement since the commissioning of the first sewage treatment project in 2007:
479,069,311 tonnes of sewage treated
80,458 tonnes of COD reduced

Decontaminating and purifying water are the core responsibilities of our sewage treatment business. All our projects have been qualified for operation under the Pollutant Discharge Permit and no violations of applicable laws and regulations have been found, including but not limited to the Law of the People's Republic of China on the Prevention and Control of Water Pollution and the Criminal Law of the People's Republic of China. We specifically use facilities and treatment technologies of different sises according to the nature of the sewage to be treated, including Biolak technology of Germany, Cyclic Activated Sludge System (CASS) technology and Anaerobic-Anoxic-Oxic (A2/O) technology, combining with biological oxidation tank, magnetic-coagulation separation, ultraviolet irradiation disinfection, etc. The domestic sewage treated at the Gaoming Sewage Treatment Plant of the Group in Foshan, Guangdong Province meets the national first-class B standard, and the sewage treated at the remaining sewage treatment plants is discharged in accordance with the national first-class A standard of the Emission Standards for Pollutants in Urban Sewage Treatment Plants, to ensure that it will not detrimentally affect natural ecology and human health and sewage will only be discharged at designated locations in the agreement with the government.

Before the construction of the sewage treatment plant, we have obtained the approval of the "Environmental Assessment of Construction Projects" (《建設項目環境評價》) and the "Environmental Protection Acceptance of Construction Projects "(《建設項目環境保護驗收》). The wastewater treatment plant meets the national environmental protection standards during the construction phase. We do not directly discharge the pollutants specified in the Environmental Protection Tax Law of the People's Republic of China and are eligible for tax concessions accordingly. In 2019, all treated effluent is discharged either to the ocean or river, amounting to 55,060,204 tonnes in total.

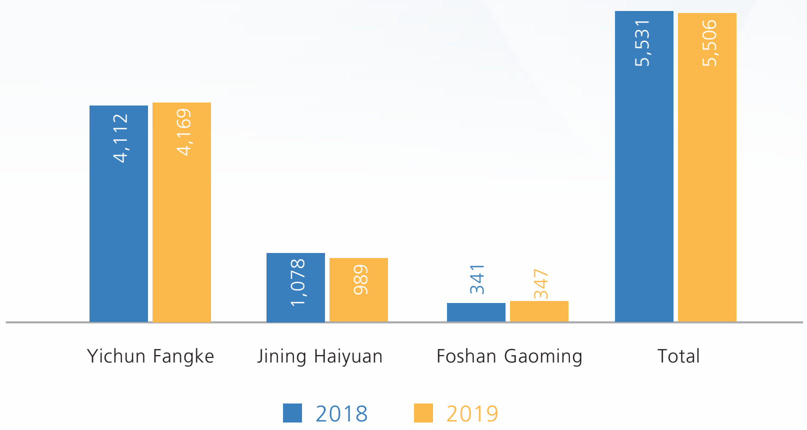
Yichun Fangke Sewage Treatment Company Limited has continuously improved the construction of wastewater and sludge treatment facilities, and constructed and operated Yichun Sewage Treatment Plant and Mingyue Mountain Wentang Sewage Treatment Plant in a build-operate-transfer (BOT) model. The upgrading, reconstruction and expansion project of phase IV Yichun Sewage Treatment Plant started in October 2018. It was commissioned after water connection in July 2019, and completed environmental inspection and acceptance in November of the same year. Currently, its daily sewage disposal capacity reaches 140,000 tonnes. The construction project of Mingyue Mountain Wentang Sewage Treatment Plant started in May 2019, aiming to connect water and operate by the end of May 2020. Phase I construction is expected to reach a daily sewage disposal capacity of 20,000 tonnes. The two sewage treatment plants will undertake an important task of treating the domestic sewage in the central city area of Yichun and in the area of Mingyue Mountain Wentang.

In addition to sewage treatment, we also focus on recycling waste and actively explore the possibility of sludge reuse. Yichun Fangke Sewage Treatment Company Limited dehydrates sludge with sludge dehydration technology. The target water content of sludge is reduced from 80% to 40%. The dehydrated sludge is sent to landfills designated by the government. We reduce the amount of sludge generated in the process of treatment, and also save landfill sites and help extend the useful life of landfills.

Total volume (tonnes) of treated sludge discharged by various disposal methods as at 31 December 2019

Incineration	Landfill	Bricking-making	Total
312	24,725	4,987	30,024

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

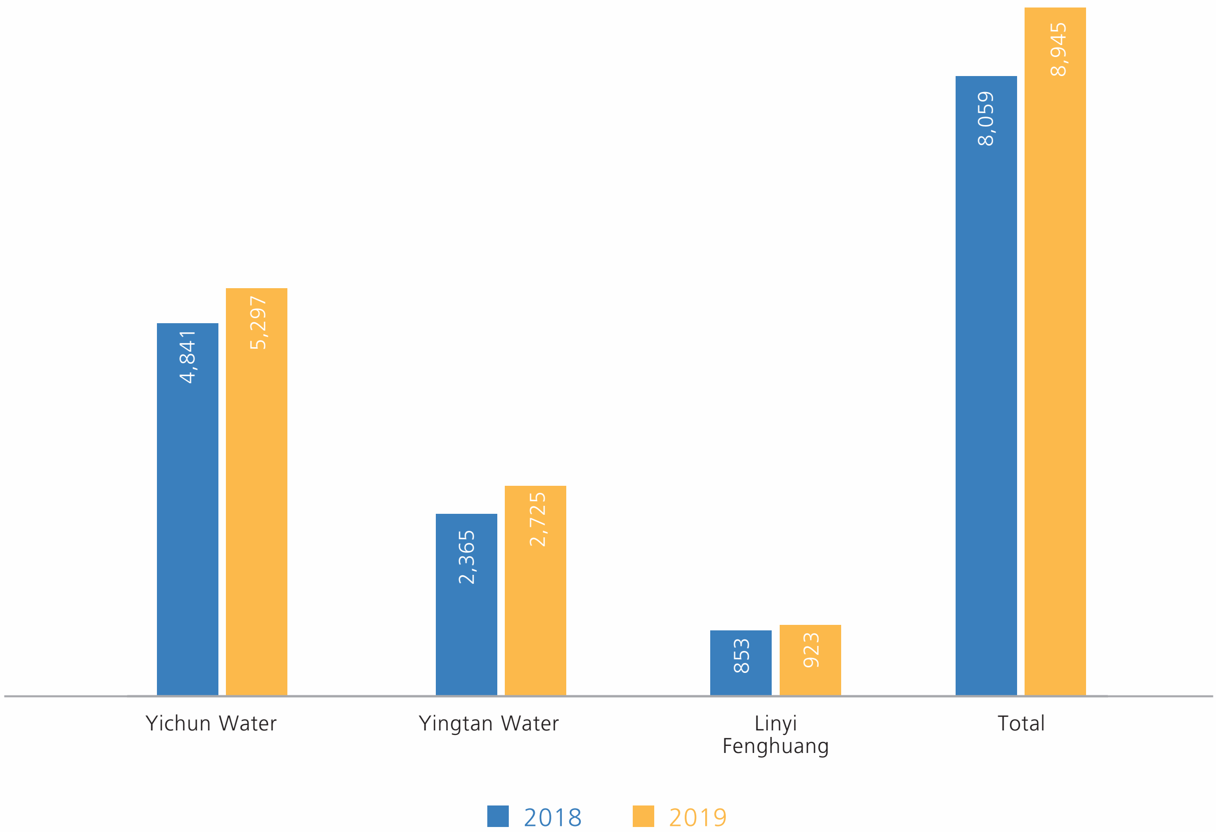


Reduction in COD (Tonnes)

Water Supply

Urban water supply has been one of the principal activities of the Group for many years. We are committed to providing customers with stable and reliable running water, ensuring the safety of urban water supply, offering urban resident-oriented services, as well as, complying with the laws and regulations related to water resources, including but not limited to the Water Law of the People's Republic of China. In 2019, we have 3 water supply projects, situated in Yichun (Jiangxi) , Yingtan (Jiangxi) and Linyi (Shandong) supplied a total of 89,445,291 tonnes of water during the year.

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



Water Safety

In order to strengthen the sanitary supervision and environmental sanitation management of production process of various water plants, we have established and implemented a water quality monitoring system in accordance with the "Urban Water Supply Regulations" (《城市供水條例》) to ensure that the water quality meets the drinking water sanitary standards set by the state. Various types of water storage equipment are also regularly cleaned and disinfected to prevent water pollution. Sanitation protection areas for water source will be set up in the factories where necessary. It is strictly prohibited to build any facilities that may endanger water quality and sanitation and conduct activities that hinder the sanitation of water source and water quality. We have set up the pressure measurement point of the pipe network to ensure that the pressure of the water supply pipe network complies with national standards. We have established a timely temporary water termination notification system and a water meter installation system, which have greatly improved our service quality. We also regularly inspects and repairs reservoirs, water diversion channels, water intakes, pumping stations, wells, water distribution networks, household water meters, water purification plants, public water stations, etc. Security guards are also arranged to monitor important areas of the water plant around the clock to ensure safe operation.

We regularly commission third-party testing companies to conduct detailed water quality inspections at representative sampling points, including water intake point, water outlet point, frequent water taking points of the residents, as well as the ending point of the pipe network. The testing parameters include more than 30 different detection items such as color, coliform, odour, oxygen demand, free residual chlorine, lead, etc. We have set up our own testing center for some water supply projects to strengthen the supervision of water quality.

In addition to comprehensive ancillary facilities, we also attach great importance to the health conditions of employees. All staff engaged in water supply and management must obtain health certificates before they can start work and are required to conduct health check once a year. No employee suffering from an illness which affects the sanitary of water supply shall directly engage in related works. In addition, we regularly train our employees to improve their health and safety awareness, alertness and operational skills, thereby achieving a mutually beneficial and win-win employment relationship.

Actively conducting water quality testing to ensure the safety of indirect water supply

The sanitation and safety issues of indirect water supply directly affect the health of users living in high-rise. Deficiencies in water storage, disinfection, protection and other aspects may lead to substandard water quality, which has become the major concern of the general public.

In order to ensure the quality of drinking water and eliminate hidden threats to hygiene and safety of indirect water supply, the staff of water quality monitoring station and cleaning and disinfection station of Yingtan Water Supply Group Co., Ltd ("**Yingtan Water Supply**") conducted an on-site water quality sampling test for a water tank of a unit with indirect water supply in the city, as well as, cleaned and disinfected the water tank.

In the process of testing, the water quality monitoring station tested 13 indicators, such as pH, turbidity, and odour, in strict compliance with the requirements of the "Standards for Drinking Water Quality" (GB5749-2006), and hidden threats to hygiene and safety of indirect water supply were found and eliminated on a timely basis.

Verifying and comparing water quality to ensure quality of water quality testing data

Yichun Fangke Sewage Treatment Company Limited strives to continuously strengthen the construction of professional infrastructure and professional technical level of laboratory, and promote the smooth implementation of testing of the laboratory in all aspects. The laboratory personnel and a third-party testing institutions conducted an analysis and study of water quality data. The staff of the third-party testing institution introduced the laboratory instruments and explained the determination methods of total phosphorus of water quality for the laboratory personnel in every aspect. The laboratory personnel began a series of analysis works, which mainly targeted at the verification and comparison of the determination methods of total phosphorus of water quality. Certain operational focus points, pharmaceutical characteristics, details of instrument rinsing and sampling pointed out by the staff not only enrich our theoretical knowledge, but also enhance our practical ability. The exchange programme not only provides scientific references for data testing of the laboratory in the future, it also helps us to learn from their excellent experience and apply it to our practical tasks, thereby providing reliable data for the development of the Company.

Management of Water Supply Projects

We have formulated the Project Management System and the Project Quality Management System to strengthen our management of project quality. We regulate the project construction process in strict compliance with the "Water Pipeline Construction and Inspection Standards" (《給水排水管道工程施工及驗收規範》)(GB50268-2008), to promote coordination between departments and improve working efficiency. The materials of the water pipeline are also important to the quality of water supply. We will only use the pipes that obtain product quality certificates or certificates in conformity with the national standards such as "Polyethylene (PE) for Water Supply" (《給水用聚乙烯(PE)管材》)(GB/T13663-2000), to ensure the safety of water supply and the health of users. Some project companies use stainless steel pipes, pipes and fittings from suppliers that have passed ISO9001:2015 quality management system certification.

In respect of project maintenance, our professional maintenance personnel of engineering department are put on standby around the clock. Once receiving any leakage report, they will immediately rush to the site to conduct maintenance, to ensure the operations are in compliance with the requirements of the local authority for the management of water supply and water usage, and the water pressure is up to standard. We also attach importance to providing a safe working environment. When conducting maintenance work, all relevant personnel are required to wear helmets and high-visibility clothing. Meanwhile, warning signs and guard rails are in place to avoid accidents.

Committing to the duty of supplying water with non-stop service during the long holiday of Spring Festival

In order to ensure safe and stable water supply service in urban areas during long holiday, the employees of Yingtan Water Supply Group Co., Ltd stay in the forefront during Chinese New Year period.

1. Rational arrangements and early deployment

   As early as half a month before the Spring Festival, we had made detailed arrangements and deployment for water supply during the festival. Water supplier companies, water quality monitoring stations and pipeline network management companies conducted thorough inspections on all mechanical equipment, testing equipment and water supply pipelines. Various departments reviewed the inspections of safety production under the leadership of the management of the Company.

2. Ensuring production on an around-the-clock standby basis

   In order to ensure uninterrupted water supply during the festival, we strictly observed the on-duty discipline and stood by 24 hours a day. Personnel were designated to monitor two water plants, two water supply pressure stations, business halls, customer service hotlines, production scheduling team, maintenance and inspection team of pipeline network gate valve, installation team, materials storage, etc. on a daily basis.

3. Scientific scheduling and quick response

   Benefit from the intelligent water platform vigorously developed by the Company in recent years, we made timely record of and integrated adjustment to water volume and water pressure through 24-hour monitoring of SCDA (data collection and monitoring control system) pipeline network pressure surveillance system, geographic information system (GIS) pipeline network, marketing MIS system and other production systems by the staff of hotline center, in accordance with the traditional practice of urban residents, weather changes and other factors. The deployment capabilities of various water plants and pressure stations were fully capitalised and the best scientific distribution plan was implemented to effectively guarantee stable water pressure, sufficient water supply and high-quality water during the Spring Festival.

Rushing to conduct maintenance despite wintry condition to ensure water supply and deliver warmth

The severe cold in winter tested the resilience and perseverance of water supply personnel. On 15 January, a main pipe of water supply at a traffic interchange in Linyi City burst suddenly. The water quickly spewed onto the road and caused large-scale water outages. The heating and heat exchange stations in various communities also faced heat outage due to the shortage of water. The maintenance personnel of Linyi Fenghuang Water Industry Co., Ltd, who were rushing elsewhere for repairs, immediately dispatched a team to the scene to carry out emergency repairs in accordance with the emergency response plan. In order to restore water supply as soon as possible, the maintenance personnel worked for 7 hours in the icy muddy water under severe cold and tiredness, and finally restored water supply at night.

Optimizing customer service

The Group is committed to providing customer-oriented services to ensure that our customers receive the most effective and high-quality services. Some project companies also provide 24-hour customer service hotlines, coupled with the 12345 service hotline offered by the government, the opinions or needs of customers are accepted and addressed on a timely basis. In addition, we have formulated the codes of customer service, job responsibilities and processes to further standardise and optimise customer service. We also set up relevant contingency plans for emergencies such as power outages of water plants, burst of main pipe and other natural disasters, to give employees clear instructions on how to deal with the issues, improve their resilience in emergencies and ensure stable water supply. In addition, customers can pay water bills, make an inquiry and check corporate information, such as temporary water supply suspension notice, water fees schedule and water quality testing report and etc., via their WeChat public accounts set up by project companies, which fully demonstrates our corporate transparency. Our payment channels have also expanded to banks, Alipay, and Mobile QuickPass. Besides, service counters have been created in the administrative services centre for the convenience of customers. We have designated personnel in the meter-reading department for handling complaints and following up the problems regarding water meter, water fee and others reported by the landlords.

Work Flow for Customer Service

Receipt	Complaints from customers are received via hotlines of the Company and the government and are recorded in detail.
Transfer	According to the priority, the complaints will be transferred to the head of departmental leaders for instructions.
Handling	The complaints will be handled by relevant departments on a timely basis (3 working days).
Return visits	Telephone return visits are made to follow up the situation and customer satisfaction, and the cases are reported in written form to head of departmental leaders via email for signature.

Providing civilised etiquette training to improve frontline service

In order to consolidate the concept of service of personnel serving at the service counters, Yichun Water Industry Group Co., Ltd. organised training in service etiquette, and more than 40 frontline staff from each customer service center participated the training. The training was aimed at standardizing the service etiquette of water frontline staff, and taught participants the basic service etiquette of providing water frontline service, including working norms, appearance, behaviour and reception standards. It started from the basic concepts of etiquette and elaborated the basic motion standard, basic make-up, basic dressing, communication etiquette, etc., focusing on detailed explanation of internal and external cultivation, greeting, knowledge of daily water business and other aspects of frontline staff. The participants said they benefitted greatly from the etiquette education. "Everything that we do is essential to our image and shapes the environment". The counter service was optimised and the service level of frontline personnel was enhanced through the training.

Internet of Things (IOT) water supply creates the future

Yingtan took the lead in building a city with full coverage of smart meters in 2017. A total of 125,000 smart water meters were installed in the city, and more than 300 kilometers of water pipes are constantly flowing not only tap water but also big data. Yingtan Water Supply Group Co., Ltd. is committed to becoming a leader in the development of the mobile IOT industry. It uses Narrowband-Internet of Things (NB-IOT) technology to achieve smart water management, making "door-to-door water meter reading" completely history and bringing great convenience to the citizens. CCTV also paid great attention to this achievement. Its success was also highlighted in the "Magnificent 70 Years, A New Era of Struggle – Overview of the Achievements of China*" (壯麗70年、奮鬥新時代－共和國發展成就巡禮) during live news the CCTV news channel on 22 July. In the past, meter readers had to go door-to-door to read the water meter data of all users. Now, they can monitor the daily water consumption data of each household online with only a small chip. The current system acts like a scout working underground to understand the amount of water used in the city at any time and monitor the pressure of the pipeline network in real time, so that leakage and dripping of water pipe is identified on a timely basis and the fault point is identified more accurately within one meter. Nowadays, maintenance personnel can ride in their cars with equipment to explore location that is not necessarily leakage point instead of relying on their experience in the past, which greatly reduces the road works in urban area.

Yingtan Water Supply Group Co., Ltd actively embraces new technologies, new models and new markets, strongly supports the development of smart industries, optimises the lagging segments of traditional industries, and promotes industrial upgrading and development through information construction, so that citizens can enjoy new life more intelligently and great social and economic benefits are achieved.

OUR ENVIRONMENT

As a company focusing on water related services and renewable energy, the Group is part of the fabric of the nature. We are committed to solving environmental problems and making good use of all resources to reduce the impact on the environment. We implemented methods in treating waste, wastewater, gas emissions and noise produced during the manufacturing process, and applied information technologies to build up a green office. Our project companies have formulated a sound environmental management systems, some of which have obtained ISO 14001 environmental management system certification, to continuously monitor and manage the impact on the environment, as well as, adopt stringent emission standards. During the Reporting Period, we were not aware of any non-compliance with relevant environmental protection laws and regulations by the Group, including but not limited to the "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》), the "Environmental Protection Tax Law of the People's Republic of China" (《中華人民共和國環境保護稅法》), the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" (《中華人民共和國固體廢棄物污染環境防治法》), the "Law of the People's Republic of China on the Prevention and Control of Water Pollution" (《中華人民共和國水污染防治法》), the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" (《中華人民共和國大氣污染防治法》) and the "Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise" (《中華人民共和國環境噪聲污染防治法》).

Management in Greenhouse Gas Emissions and Energy

The major source of greenhouse gases of the Group is electricity consumption. During the year, we implemented a number of energy saving measures, such as optimizing the power system and building design, purchasing imported energy saving production equipment and electrical appliances, and adjusting the sewage treatment equipment according to the quality of inflow water. In addition, we are also determined to replace and reduce the electricity generated by fossil fuels with renewable energy power generation. We prefer landfill gas electricity generation for the project of landfill gas electricity generation. We will first cover the landfill for deodourisation. The landfill gas collected via gas wells and pipes is purified and utilised to effectively improve the environmental sanitation of the entire landfill, reduce the landfill safety hazards, solve the problem of landfill odour pollution and make good use of renewable resources. Our employees are offered low-carbon energy-saving guidelines to encourage them to develop the habit of saving electricity, such as turning off lights and controlling air-conditioning temperature. Yichun Fangke Sewage Treatment Company Limited implemented automated production control and limited the power density by conversion, and an energy consumption of 2,000,000 kWh was saved throughout the year. In addition to electricity, the vehicles, equipment, backup generators and canteens of the Group also consume diesel, petrol, natural gas and other energies. We strive to explore any methods that can achieve energy saving and emission reduction.

Indicator	Unit	2019	2018
Total Energy Consumption	MWh	**482,307.08**	398,139.12
Purchased Electricity	MWh	**39,419.01**	32,683.33
Gasoline	MWh	**1,025.84**	1,174.53
Diesel	MWh	**482.79**	557.33
LPG	MWh	**48.42**	N/A
Natural Gas	MWh	**22.10**	22.10
Landfill gas*#	MWh	**441,308.92**	363,701.82
Total Energy Consumption Intensity	MWh/thousand HKD	**0.41**	0.42

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

\# As the amount of electricity generation from Changsha New China Water Environmental Technology Limited, Shenzhen City Li Sai Industrial Development Limited & Chengdu City Green State Renewable Energy Co., Limited increased, the relevant landfill gas consumption also increased.

Air emission directly exhausted from our operations mainly comes from electricity generators, flares of landfill gas, different types of vehicles and canteen stoves. Air emission emitted from generators is treated by deNOx devices and will be emitted only if it meets the emission limits stipulated in the "Boiler Air Pollutant Discharge Standards" (《鍋爐大氣污染物排放標準》). In the event of poor biogas quality, stoppage of landfill gas recycling device or excessive gas supply, we will use the flare system of the landfill gas electricity generation project to burn the biogas in high temperature, burn down or treat the hazardous substances in a harmless manner. Air emission that meets the "Integrated Emission Standard for Regional Air Pollutants" (《大氣污染物綜合排放標準》) will be discharged through a specific exhaust pipe. Relevant project companies have obtained the discharge permits issued by the government. We conduct regular check-ups for prevention and control of air pollution. We also entrust third-party environmental monitoring institutions to conduct on-site monitoring of atmospheric pollution. In case of any non-compliance, corrective actions will be taken base on the "Procedure of Non-compliance, Corrective and Preventive Action". In order to reduce fume emission from cooking, we installed fume purifying devices in the canteen.

Indicator	Unit	2019	2018
Total Greenhouse Gas (GHG) Emissions (Scope 1 & 2)	Tonnes of CO_2 equivalent	**22,464.59**	19,000.35
Direct Emissions (Scope 1)	Tonnes of CO_2 equivalent	**441.75**	496.57
Indirect Emissions (Scope 2)	Tonnes of CO_2 equivalent	**22,046.69**	18,527.59
GHG Removal (Tree Plantation) (Scope 1)	Tonnes of CO_2 equivalent	**23.85**	23.81
GHG Emissions (Biogenic)*	Tonnes of CO_2	**282,037.21**	163,988.25
Total GHG Emissions Intensity (Scope 1 & 2)#	kg of CO_2 equivalent/ thousand HKD	**18.89**	20.00
Nitrogen Oxides (NOx)* ^	kg	**387,057.11**	225,291.02
Sulphur Oxides (SOx)* ^	kg	**136,732.78**	79,504.12
Particulate Matter (PM)* ^	kg	**33,199.40**	19,044.87

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

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

^ As the electricity generation from three project companies increased, the relevant air emissions also increased.

Wastewater Management in relation to Renewable Energy Project

As for the landfill power generation project, landfill operators are responsible for the sanitation of the landfills and the treatment of leachate, and we are responsible for landfill gas collection through the gas wells and pipes in the landfills. The leachate inside the gas well will flow to the waste through the wall of the well, and finally be drawn out through the drainage pipe, and sent directly to the leachate treatment facility of the landfill together with the condensate inside the gas pipe for treatment. In addition, our drainage and sewage pipes are constructed based on the principle of "rain and sewage diversion". The rainwater collected separately is discharged directly. The purpose of separating the collection of sewage and rainwater is to reduce sewage production. The condensate generated by the cooling tower will be recycled for our internal use. The domestic sewage treated by septic or leachate tanks will be transported to sewage treatment station of landfill or used for greening and fertilisation.

Water Management

We constantly review various water conservation measures, and focus on reducing water use and recycling wastewater. We implemented water conservation policies within the Group, installed low-flow water-saving devices, and eliminated outdated apparatuses with high water consumption. During the Reporting Period, we did not have any problems in sourcing water that is fit for purpose. In addition, we actively encourage the reuse of wastewater, and use wastewater for greening, landscaping and sprinkling water on the road.

Indicator	Unit	2019	2018
Total Water Consumption*	m^3	**39,182**	37,181
Total Water Consumption Intensity	m^3/thousand HKD	**0.03**	0.04

Noise Management

We use large machines such as generator units, water pumps and gas boosters in daily operations, which will inevitably create a certain degree of noises. In order to reduce the impact of noise on nearby communities and ensure that noise level in factory area meets the "Standards of Category II of the Emission standard for Industrial Enterprises Noise at Boundary" (《工業企業廠界環境噪聲排放標準》)(GB12348-2008). We properly arrange the layout of the factory area. Regular inspection and maintenance of equipment are carried out to maintain good operating conditions. Also, noisy equipment is encapsulated in a soundproof box and installed with damping pads are installed between the equipment and the ground, where possible, to reduce the noise derived by mechanical vibration.

Solid Waste Management

Our solid waste is mainly general domestic refuse, food waste and hazardous waste generated in the production process. We identify hazardous waste, including waste oil, waste desulphurisation agent and sludge, according to the "Directory of National Hazardous Wastes" (《國家危險廢物名錄》). We collect and store different categories of hazardous wastes in accordance with the "Standard for Pollution Control Hazardous Waste Storage", set up temporary liquid waste storage area and collection facilities that meet environmental requirements in the factory area, and entrust qualified hazardous waste collectors to dispose wastes to comply with the "Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Waste" (《中華人民共和國固體廢物污染環境防治法》) and other relevant laws and regulations. This is to protect public health and prevent hazardous waste from causing other unnecessary environmental pollution. To ensure that recyclers have sufficient resources to properly recycle and dispose of waste, we conduct spot checks and supervise waste recyclers regularly.

* Water consumption of 2018 and 2019 represent 7 and 8 project companies

As for general solid waste, we properly store and dispose of recyclable and non-recyclable general waste according to the "Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes" (《一般工業固體廢物儲存、處置場污染控制標準》) (GB18599-2001). Recyclable general waste such as scrap iron, waste cloth, waste wood, waste paper, etc., are segregated and then handed over to qualified recyclers to reduce waste generation. Our Environmental Management Team will review the waste management semi-annually and continue to optimise the management system.

Indicator	Unit	2019	2018
Total Hazardous Waste	Tonnes	**231.86**	479.26
Waste Oil and Waste Containing Oil	Tonnes	**220.26**	68.95
Waste Catalysts	Tonnes	**–**	3.69
Sludge	Tonnes	**–**	405.62
Battery	Tonnes	**–**	1.00
Waste Drums	Tonnes	**0.80**	–
Waste Activated Carbon	Tonnes	**10.80**	–
Total Hazardous Waste Intensity	kg/thousand HKD	**0.20**	0.50
Total Non-Hazardous Waste	Tonnes	**55.42**	64.31
Recycled			
Metal	Tonnes	**14.85**	–
Food Waste	Tonnes	**5.40**	12.92
Paper	Tonnes	**0.31**	–
Other General Refuse	Tonnes	**0.50**	5.79
Disposed			
Food Waste	Tonnes	**7.75**	0.30
Paper	Tonnes	**0.21**	–
Other General Refuse	Tonnes	**26.40**	45.30
Total Non-Hazardous Waste Intensity	kg/thousand HKD	**0.05**	0.07

CARING FOR EMPLOYEES

The Group highly recognises the various values that employees bring to us, and is committed to providing a workplace with motivation and satisfaction that encourages collaboration, offers employees opportunities to learn and grow at work and in life, and maintains a win-win relationship with employees. During the Reporting Period, we were not aware of any violations of laws and regulations related to employment by the Group, including but not limited to the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》), the "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), the "Social Insurance Law of the People's Republic of China" (《中華人民共和國社會保險法》) and the "Provisions on the Prohibition of Using Child Labour" (《禁止使用童工規定》).

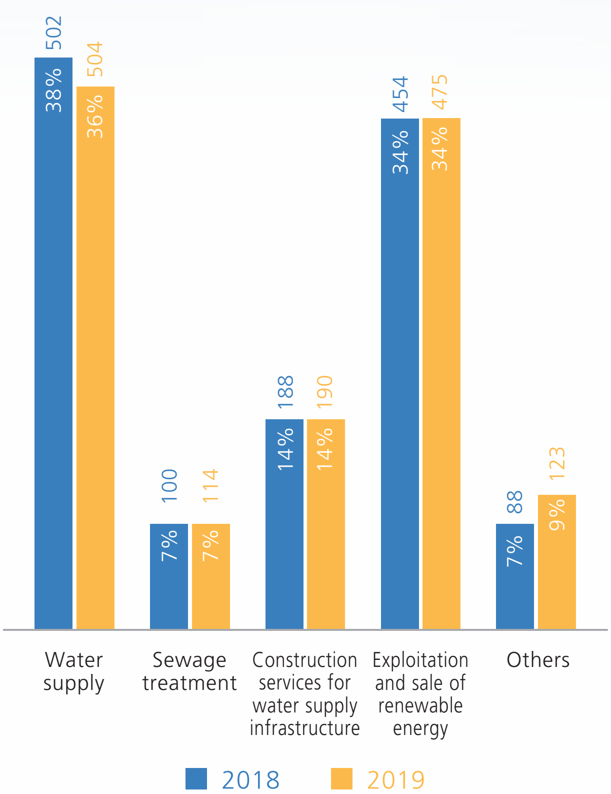
People Management

To protect the legitimate rights and interests of employees and the Group, we have developed relevant personnel management systems for each of our project unit based on the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》), which clearly stipulate the operation procedures and regulations related to employee recruitment, resignation, promotion, salary, working hours, leave, etc. The Group recruits talents mainly by posting advertisements on newspapers, job boards, job markets, recruitment agencies, talent websites, internal promotions or referrals from coworkers. We hire and promote excellent, suitable and capable talents in a fair, open and transparent manner without any discrimination based on race, religion, gender, marital status, sexual orientation, age, disability, etc. We adopt a zero-tolerance attitude towards child labour and forced labour, and strictly implement the "Provisions on Prohibition of Child Labour" (《禁止使用童工規定》) of the State Council. The Group performs stringent inspection of ID cards and photos of candidates during recruitment processes, and checks their residence registration if necessary. Candidates will be admitted into registration procedures only after verification of photos. Those who have not obtained an ID card shall hold a certificate of over 16 years old approved by the police station where their residence is registered. Employees shall guarantee the authenticity, legality and validity of the submitted documents, and shall not borrow or falsify the documents to deceive the Company. Otherwise, they will not be qualified for employment or their labour relationship with the Company will be terminated immediately. The Company will claim all the legal responsibilities to those who cause serious consequences. In the event of any recruitment of child under the age of 16, the management personnel of relevant department will be accountable. A special team will be set up to ensure the victims are adequately protected, and all their salaries are immediately settled. We will escort the child to his/her original place of residence and obtain the signature of the parent or guardian for confirmation.

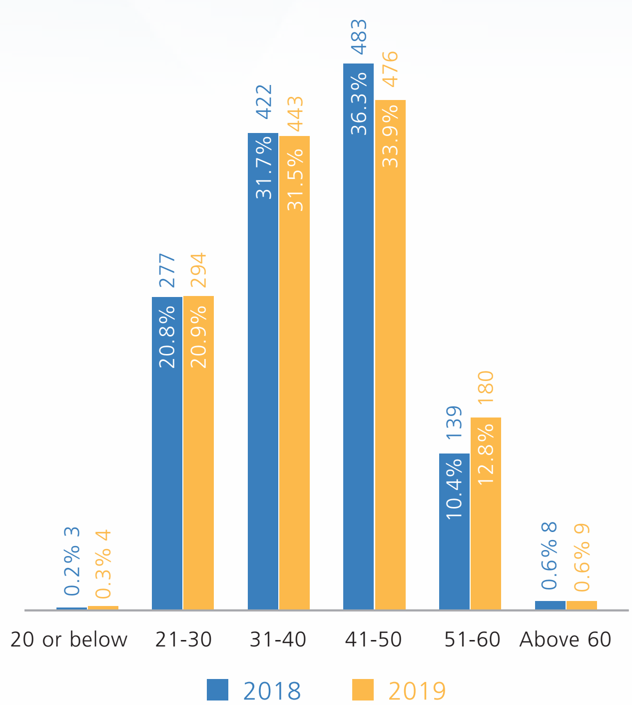
In addition, we sign Labour Contracts with all new employees within one month after they join the Company on a willing basis and have their social security paid. We will never recruit employees by forced or deceptive means such as seizing their ID cards or other valid documents. If necessary, the Supplement Agreement to Labour Contract and the Confidentiality Agreement will be signed at the same time. If an employee is involved in a serious violation of the regulations, the Company is entitled to terminate the labour relationship with the employee in writing in accordance with the Labour Law of the People's Republic of China and relevant regulations. The employee dismissed by the Company will not be given financial compensation other than wages. We distribute Employee Handbooks to employees, which provide details on corporate management policies, employee compensation, leaves, benefits, etc., and notify employees of any updates.

As of 31 December 2019, the Group had 1,406 employees*; 467 are female employees which accounted for 33% of the total number of employees. All our employees are located in China (including Hong Kong).

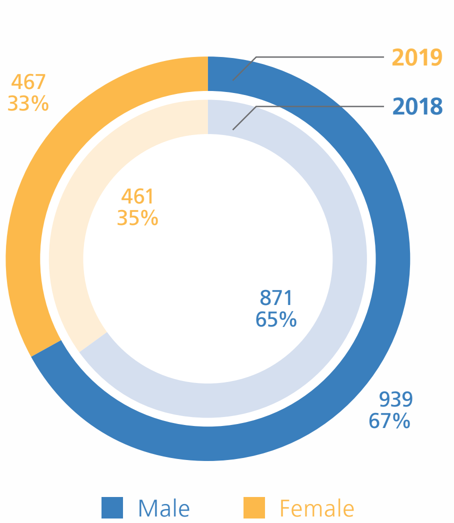
Distribution of employee by business segment



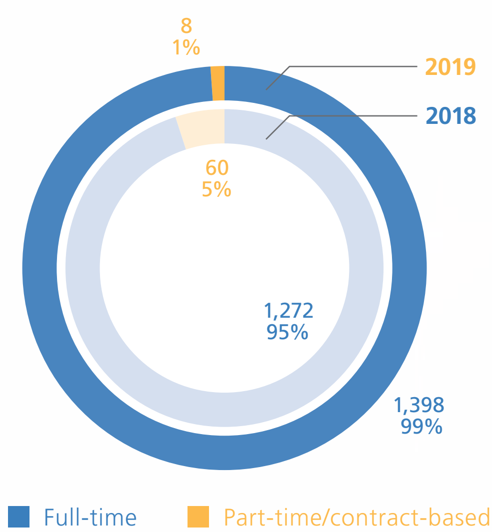
Distribution of employee by age group



Distribution of employee by gender

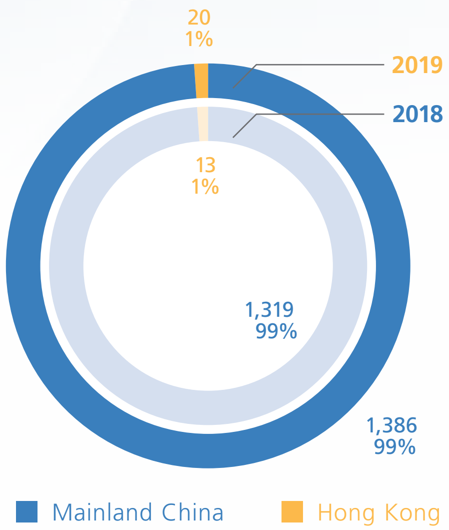


Distribution of employee by employee category

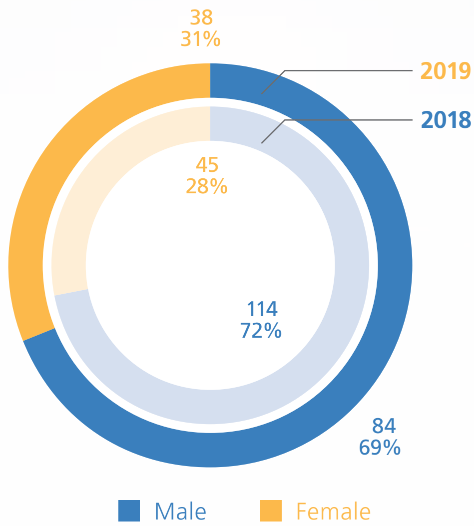


* The data related to employees covers all employees of the Group and the scope of disclosure is consistent with that of the financial report.

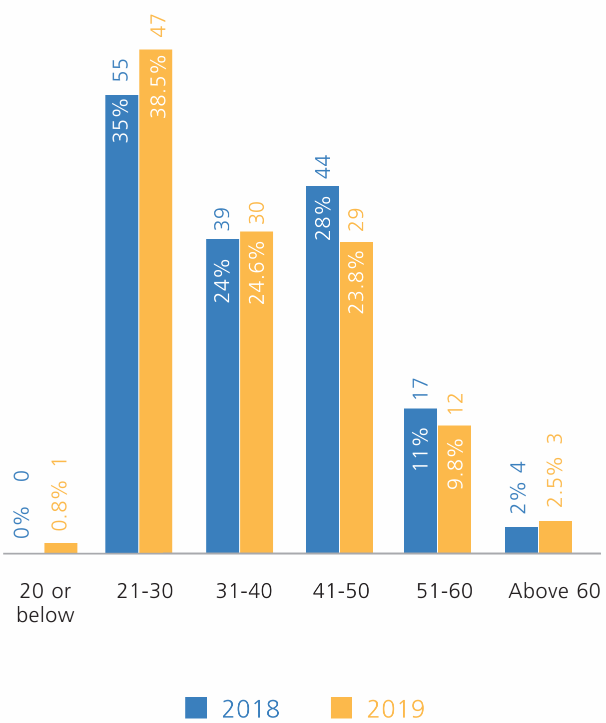
Distribution of employee by region



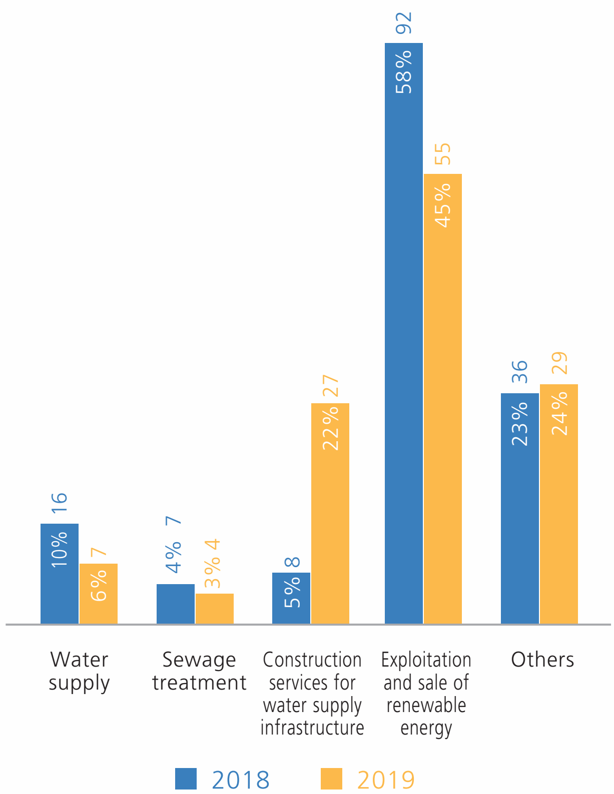
Staff turnover by gender



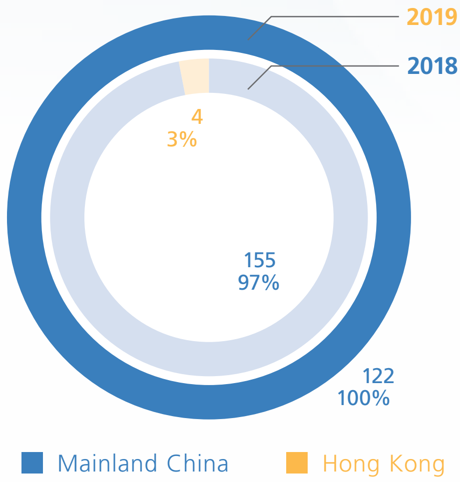
Staff turnover by age group



Staff turnover by business segment



Staff turnover by region



Protection for Our Female Employees

The Group has always been making the best use of talent and gender-neutral. We have a female employee protection system, which includes a review mechanism to ensure that female employees will not be unreasonably dismissed due to pregnancy, maternity leave, breastfeeding, etc. and be able to get a basic salary on the basis of fair treatment. They will not be a target of discrimination in salary reviews, promotion and work arrangements to protect their rights and interests. For pregnant employees, we will make the necessary job transfers to avoid them from taking jobs that are harmful to health.

Occupational Health and Safety

We have developed and strictly implemented a system for safety production and education, emergency response plans and safe operating procedures to comply with the "Prevention and Control of Occupational Diseases Law of the People's Republic of China" (《中華人民共和國職業病防治法》)and the "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》). The Group has designated personnel to conduct 24-hour patrolling. The production personnel of factory area inspect and organise fire drills regularly to prevent and eliminate hidden threats to safety in time. Each project company has an operation safety team in place, which is responsible for educating employees on safety production, formulating safety production and operation procedures, and supervising the implementation of safety procedures. We maintain work-related injury insurance for employees, and equip personnel in special positions with masks, gloves, safety shoes, cotton coats and other protective equipment.

We strictly abide by other laws and regulations applicable to occupational health and safety, including but not limited to the "Fire Services Law of the People's Republic of China" (《中華人民共和國消防法》), the "Regulations on the Safety Administration of Hazardous Chemicals" (《危險化學品安全管理條例》)and the "Provisions on the Supervision and Administration of Occupational Health at Work Sites" (《工作場所職業衛生監督管理規定》).

The following are some of the measures taken by the project company to ensure the occupational health and safety of employees:

- Smoking and use of fire in the operation or storage area of flammable and explosive materials and landfills is strictly forbidden
- Regular inspection is conducted to eliminate risk of fire
- Supervision is required for operations such as flaming and welding
- Employees should receive adequate training. For instance, in some project companies, new joiners are required to receive 3-level safety training and pass relevant tests to obtain safety certificate before employment
- Employees in specialised operations are required to obtain special operation certificates
- Safety alert signs are placed at working stations
- Medical examination and occupational health check are arranged for employees at least every two years
- Safety drills are conducted regularly
- Safety checks are conducted weekly to solve problems in a timely manner
- A comprehensive contingency plan is developed that addresses all types of emergencies, such as chemical spills, electric shocks, gas accidents, equipment operating accidents, natural disasters , major casualties, suspension of power supply, fires, and serious accidents involving employees
- Potential employees will be designated to attain external professional trainings at fire departments, hospitals, etc., so that employees can escape in an orderly manner and receive immediate treatment in case of emergencies
- Food test for canteens and large-scale cleaning for canteens and staff quarters are conducted regularly to ensure that the chefs are in good health condition and the ingredients are fresh and safe
- Infectious diseases, insects and mice control and prevention measures are taken to ensure employees' health and safety

Safe Production Month for 2019

Chengdu City Green State Renewable Energy Co., Limited carried out "Safe Production Month" activities with a focus on safety of hazardous chemicals and on the theme of "preventing risks, removing hidden threats and curbing accidents" synchronously with other parts of the country in June, in accordance with the requirements of the Notice on Carrying Out 2019 National Activities of "Safe Production Month" and "Safe Production Walk" (Safety Committee Office [2019] No. 10) issued by the Work Safety Committee of the State Council, to enhance awareness of safe production, improve the capabilities of disaster prevention, mitigation and relief, and timely eliminate potential safety hazards, implement safety production responsibilities, and rectify major safety hazards. The main activities include:

1. Formulate a safe production slogan, produce a banner to promote the theme of Safe Production Month of "preventing risks, removing hidden threats and curbing accidents", and vigorously promote the key spirit of the Safe Production Month for 2019.

2. Organise a special training session on Safe Production Month for all employees to gain the knowledge of safety production and watch videos on safety incidents and safety education. At the special training session on the theme of Safe Production Month, the preventive awareness on safety incidents of employees was enhanced greatly through the teaching of safety knowledge and the explanation of safety incidents.

3. The Fire Prevention Branch provided training and guidance of fire drills for all staff to gain the fire prevention knowledge related to landfill gas hazards, first-aid measures and electrical fires, as well as, the use of and cautions regarding fire-fighting equipment, and to master fire emergency skills. The fire safety awareness and fire emergency response capabilities of employees have been improved. In the event of an emergency, personnel injuries and property loss of the Company caused by fire accidents are minimised. The main purpose of this fire drill is to identify defects and deficiencies. We have gained a lot through this fire drill. We identified hidden hazards, such as failure of discharging water of fire hydrant, in a timely manner. We also inspected the feasibility and deficiencies of the Emergency Response Plan for Safety Incidents, the timeliness of each functional team in an emergency, and the way to ensure safety of personnel and equipment during the rescue process.



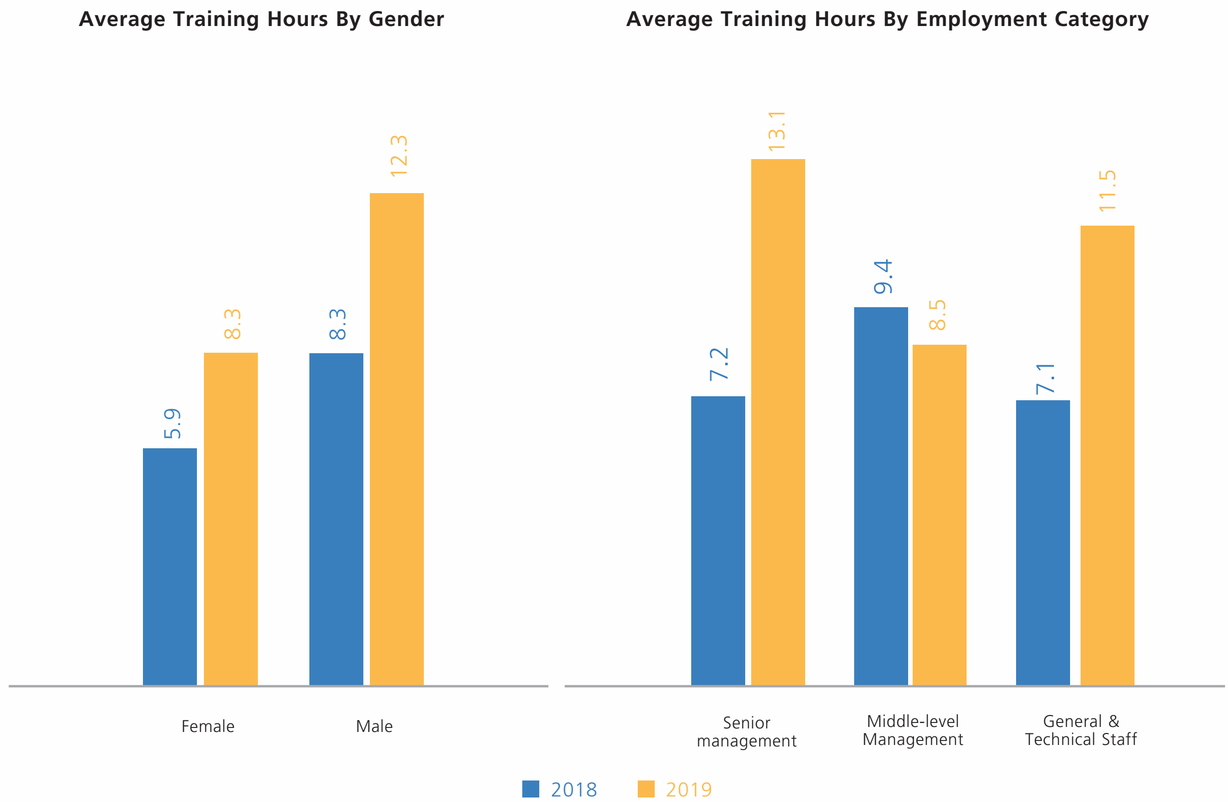
Special inspection of hazardous chemicals by Yichun Water Industry Group Co., Ltd

In order to earnestly implement the "Notice on Printing and Distributing the Work Plan for the Comprehensive Management of Hazardous Chemicals for the Residential Property and Urban Construction System of Jiangxi Province", further strengthen the use and management of hazardous chemicals, and prevent and reduce the occurrence of various hazardous chemical incidents, Yichun Water Industry Group Co., Ltd organised a special inspection of hazardous chemicals. The safety production inspection team fully inspected the safety management of hazardous chemicals in the testing center by examining the drug management ledger, the storage condition of drugs in the physical and chemical laboratory, and the operation status of the built-in alarms in the gas cabinets. At the same time, all departments involved in the use and management of hazardous chemicals are required to actively carry out self-examination of safety production, promptly rectify the problems discovered, perform registration and filing, and fulfil their respective responsibilities to ensure safety.

We implemented safety management accountability and enhanced the safety awareness of departments that use and manage hazardous chemicals through the investigation of hidden threats of hazardous chemicals. At the same time, we adhered to the combined approach of comprehensive management and other safety inspections of hazardous chemicals, as well as, the inspection and remediation of hidden hazards, to improve the long-term safety production mechanism and effectively prevent hazardous chemical incidents.

Employee Trainings

Human capital is one of the mainstays of the Group. We strive to build a high-level talent pool, and devote resources to continuously improve employee growth and training mechanisms, in order to balance business development and cater the needs of employees' personal development. We provide diverse training courses every year to enhance the professional knowledge and skills of employees. Some project companies also established online schools and uploaded training videos, so that employees can watch and review the videos at their convenience. In addition to regular internal trainings, outstanding employees will be assigned to various vocational training institutions to receive professional trainings. We will also invite external professional training personnel to train our employees. Besides, individual project companies will subsidise employee-led learning as long as it meets the business needs of the Company, to make the trainings more autonomous and appropriate.



News reporters of Yichun Water Industry Group Co., Ltd visited the campus of University of Education to participate in business training

In order to improve propaganda work, Yichun Water Industry Group Co., Ltd arranged three news reporters to participate in a three-day press and publicity business training. The training, which was conducted at Jiangxi Normal University with a nickname of the "most beautiful campus", was organised by the Law Enforcement Bureau of Yichun City and was participated by a total of more than 50 news and publicity personnel of the Bureau. The lecturers of the training included the experts and professors of Jiangxi Normal University with outstanding contributions and extensive experience in the field of news and publicity, as well as, the leaders of the Propaganda Department of the Provincial Party Committee and spokespersons of the provincial government.

The students had a systematic study on the characteristics of commentary on news, the relationship between news propaganda and public opinion, the way of news reporting the works of grassroots units, and the role of media guidance on public opinions under the spirit of the 19th National Congress, etc. The vivid teaching methods of trainers provided much inspiration to the students. Their hunger for knowledge also created a positive classroom atmosphere.

Mutual Communication

Maintaining an unimpeded communication channel and promoting unity are necessary for us to show our care for the employees and enhance their sense of belonging. We value our sincere communication with employees and conduct interviews and periodically give out questionnaires to our employees in order to evaluate their feedbacks and thoughts. We also update the employees with our latest management policies and operating strategies through e-mails, meetings and announcements. Our internal magazine "Sound of Water" not only includes updates of the Group's and project companies' news, policies and industry news, but it also serves as a medium for employees to share poetries, proses or other forms of compositions. In order to ensure that each project company is in line with the internal culture of the Group, we hold a discussion of "Sound of Water" on an annual basis to facilitate the interaction and exchange among different project companies.

Employee Benefits

Employees are the foundation of stable corporate development and the key to business success. In order to retain talents, we strive to create a harmonious and satisfying working environment. In additional to basic paid annual leaves and statutory holidays, we provide full-time employees with employee benefits (including social security plan, paternity leave, bereavement leave and sick leave) according to the requirements of relevant laws. Depending on the operating performance, certain project companies also provide other benefits such as employee housing quarters, holiday allowances, travel allowances, communication allowances and meals. In terms of remuneration, we adopt the principle of fairness to determine or adjust employees' salary based on their respective education level, work experience, capability, qualification, position and actual performance.

To further strengthen the protection for our employees, we maintain commercial insurance for our employees and their family members. We also arrange regular health check-up for all employees and medical examination for special jobs and continuously improve the working environment to safeguard the first line of defense for their health.

To protect the rights, interests and health of employees, we do no encourage employees to work overtime. If the department requires employees to work overtime due to production needs, we have formulated written policies which require that employees shall not work for more than 60 hours a week and shall not work overtime for more than 36 hours a month, and ensure that for every 6 consecutive work days, they will be granted a rest day for 24 consecutive hours and receive appropriate overtime compensation according to the labour laws.

We recognise that our employees are important stakeholders of the Group who thoroughly understand our policy implementation and employee ethics. As such, we have a complaint or suggestion procedure in place which bridges the gap of communication between employees and management and helps to resolve problems and conflicts in a friendly approach. Employees may file compliant with the labour union through suggestion box, phone or personal interview. In order to protect the privacy, rights and interests of employees, all information related to the complaints will be kept in strict confidence and will not be disclosed without consent from complainants.

Eye care for all employees

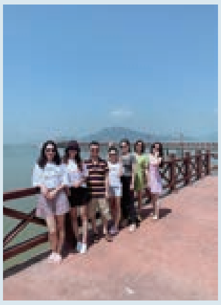
Frequent use of computers, mobile phones and other electronic devices may do harm to our eyes. In order to help employees to fully understand their visual health, learn eye care knowledges and prevent and treat eye diseases in a timely manner, China Water Industry Group Limited teamed up with Ganglong Ophthalmology Center to conduct comprehensive eye examination for employees free of charge.

Work Life Balance

Too much pressure may lead to loss of balance between work and personal life. The Group is committed to resolving the conflict between work and personal life of employees in order to alleviate work pressure and ensure physical and mental health of employees. We hold annual meeting and organise a variety of recreational activities regularly such as sports competitions, ball games and outdoor activities to help employees to relax from work.

Moving forward with concerted efforts

The employees of general affairs department of the Group carried out a two-day team building activity in Huizhou. Team members participated in outdoor water activities and games which improved their teamwork, brought them closer together and boosted the team cohesion. The team building activity also let the employees realise the importance of team spirit and teamwork. Only mutual trust and support among team members can make the whole team move forward hand in hand. As the old saying goes, when everybody adds fuel, the flames rise high. Only with shared vision and concerted efforts can we achieve the goal as a team.



Celebrating the New Year with laughter and happiness

The labour union of Yichun Fangke Sewage Treatment Company Limited organised various New Year celebrating activities, which were actively participated by all employees. These activities were rich in variety including teamwork games such as tug of war, ball passing relay and five legged race; individual games such as prize wheels and darts; and mountain climbing competition for all employees. All employees had a great time at the activities, got relaxed from work and further strengthened their relationship, which reflected the management idea of "forming a family of coworkers with love and care", showed the vitality and proactiveness of employees, and laid a solid foundation for future development in a brand new year.

COMMUNITY CONTRIBUTION

The Group has been promoting harmonious development of the communities at the places where it operates to improve the living environment. We strive to make contribution to the society by actively supporting various community activities and encouraging our employees to participate in such activities in order to bring positive changes to the communities and improve community cohesion. Our major community contributions are as follows:

Volunteer Events

- Yichun Water Industry Group Co., Ltd, through its despatch center construction leading group, actively carried out poverty alleviation and social welfare activities which included environmental protection volunteer activity in Mingyue Mountain Scenic Area (a 5A rated tourist attraction in China), volunteer event of "Promoting Water Resources Protection among Young Generation" ("保護水資源，青春伴我行") and visiting Xinfang Elderly Home.

- Swan (Huizhou) Investment Company Limited organised the "Plant a Hope and Fulfill a Dream" tree planting activity in Huizhou Taimei Plant Nursery Center. The Chairman of the Board and Chief Executive Officer and executive Directors of the Group, the chairman of the board, general management, deputy general manager and some employees of Swan (Huizhou) Investment Company Limited participated in the activity and planted dozens of trees. All participants worked together as a team to plant the trees in an orderly manner.

- Five employees from Yingtan Water Supply Group Co. Ltd. participated in the volunteer event of "Protecting the Mother River" organized organised by Shengxi Community of Jiaotong Subdistrict Office in Yingtan. In order to make the waterway thriving places for wildlife and spaces that people can enjoy, they spent part of the day removing trash from the riverbank and nearby lands and taking it to a central location for recycling and proper disposal.

Promoting Environmental Protection

- Linyi Fenghuang Water Industry Co. Ltd carried out the water saving promotion week campaign and shared water saving knowledge with the teachers and students in Linyi Ninth Experimental Primary School. The staff shared knowledge of "Multiple Use of Water" and "Water Saving Tips", interacted with students and taught them to avoid waste of water through scientific and reasonable approaches, in order to promote the idea of "Water saving is everyone's responsibility" and encourage them to form the habit of saving water.

- To support the promotional campaign of World Environment Day on 5 June in Yichun, Yichun Fangke Sewage Treatment Company Limited organised the public open day for its environmental protection facilities. Over 30 teachers and students participated in the event, during which the guiding staff explained the domestic sewage treatment procedures and sewage treatment result to the students. After the visit, the teachers and students also observed the microorganism in the inflow and outflow water under microscope.

Charity Donations

- Yichun Fangke Sewage Treatment Company Limited organised the activity of donating one-day salary which was well supported by employees and raised a total donation of RMB5,400 for Red Cross Society of China Yichun Branch (宜春市紅十字會).

Water saving promotional campaign

Linyi Fenghuang Water Industry Co. Ltd carried out the water saving promotion week campaign and shared water saving knowledge with the teachers and students in Linyi Ninth Experimental Primary School.

The theme of China Water Week is prioritizing water saving and strengthening water resources management. We gave a lesson to the teachers and students on relevant knowledge of saving water. Our staff shared knowledge of "Multiple Use of Water" and "Water Saving Tips" and interacted with students to let the students understand the meaning of saving water. We also taught the students to avoid waste of water in daily life through scientific and reasonable approaches, in order to promote the idea of "Water saving is everyone's responsibility" and encourage them to form the habit of saving water. This lesson deepened the students' initial understanding of saving water, and laid a good foundation for developing the awareness of saving water.

KEY ENVIRONMENTAL DATA

In view of the major sources of carbon emissions, the Group will continue to assess, record and disclose annual greenhouse gas emissions and other environmental data, and use the 2018 annual data as a benchmark to make an appropriate annual comparison with the current year's data to review the effectiveness of the current measures. It will help us further develop emission reduction targets in the future.

Indicator[1,2]	Unit	**2019**	2018
Total Greenhouse Gas (GHG) Emissions (Scope 1 & 2)	Tonnes of CO_2 equivalent	**22,464.59**	19,000.35
Direct Emissions (Scope 1)	Tonnes of CO_2 equivalent	**441.75**	496.57
Indirect Emissions (Scope 2)	Tonnes of CO_2 equivalent	**22,046.69**	18,527.59
GHG Removal (Tree Plantation) (Scope 1)	Tonnes of CO_2 equivalent	**23.85**	23.81
GHG Emissions (Biogenic)[3,5,6]	Tonnes of CO_2	**282,037.21**	163,988.25
Total GHG Emissions Intensity (Scope 1 & 2)[4]	kg of CO_2 equivalent/ thousand HKD	**18.89**	20.00
Nitrogen Oxides (NOx)[5,6]	kg	**387,057.11**	225,291.02
Sulphur Oxides (SOx)[5,6]	kg	**136,732.78**	79,504.12
Particulate Matter (PM)[5,6]	kg	**33,199.40**	19,044.87
Total Energy Consumption	MWh	**482,307.08**	398,139.12
Purchased Electricity	MWh	**39,419.01**	32,683.33
Gasoline	MWh	**1,025.84**	1,174.53
Diesel	MWh	**482.79**	557.33
LPG	MWh	**48.42**	N/A
Natural Gas	MWh	**22.10**	22.10
Landfill gas[5,6]	MWh	**441,308.92**	363,701.83
Total Energy Consumption Intensity	MWh/thousand HKD	**0.41**	0.42
Total Water Consumption[7]	m^3	**39,182.00**	37,181.00
Total Water Consumption Intensity	m^3/thousand HKD	**0.03**	0.04
Total Hazardous Waste	Tonnes	**231.86**	479.26
Waste Oil and Waste Containing Oil	Tonnes	**220.26**	68.95
Waste Catalysts	Tonnes	**–**	3.69
Sludge	Tonnes	**–**	405.62
Battery	Tonnes	**–**	1.00
Waste Drums	Tonnes	**0.80**	–
Waste Activated Carbon	Tonnes	**10.80**	–
Total Hazardous Waste Intensity	kg/thousand HKD	**0.20**	0.50
Total Non-Hazardous Waste	Tonnes	**55.42**	64.31
Recycled			
Metal	Tonnes	**14.85**	–
Food Waste	Tonnes	**5.40**	12.92
Paper	Tonnes	**0.31**	–
Other General Refuse	Tonnes	**0.50**	5.79
Disposed			
Food Waste	Tonnes	**7.75**	0.30
Paper	Tonnes	**0.21**	–
Other General Refuse	Tonnes	**26.40**	45.30
Total Non-Hazardous Waste Intensity	kg/thousand HKD	**0.05**	0.07

1. Reporting scope includes 11 project companies
2. Due to our business nature, no packaging material have been used.
3. Biogenic emission represents GHG emission from landfill gas electricity generation
4. Total GHG emission intensity (Scope 1 and 2) excludes biogenic emission. In accordance with The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (Revised Edition), published by World Business Council for Sustainable Development and World Resources Institute, emissions data for direct GHG emissions from combustion of biomass or biofuels should be reported separately.
5. Included landfill gas consumption for the generation of sold electricity.
6. As the amount of electricity generation from Changsha New China Water Environmental Technology Limited, Shenzhen City Li Sai Industrial Development Limited & Chengdu City Green State Renewable Energy Co., Limited increased, the relevant landfill gas consumption also increased.
7. Water consumption of 2018 and 2019 represent 7 and 8 project companies.

HKEX ESG REPORTING GUIDE CONTENT INDEX

Indicator		Chapter/Disclosure	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Our environment; Green business	92-106
KPI A1.1	The types of emissions and respective emissions data.	Key environmental data	121
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and intensity	Key environmental data	121
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	Key environmental data	121
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity	Key environmental data	121
KPI A1.5	Description of measures to mitigate emissions and results achieved	Our environment; Green business	92-106
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Solid waste management	105-106
Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		Our environment; Green business	92-106
KPI A2.1	Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity.	Key environmental data	121
KPI A2.2	Water consumption in total and intensity	Key environmental data	121
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Our environment; Green business	92-106
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water management	105

Indicator		Chapter/Disclosure	Page
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	Not applicable to our business.	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure Policies on minimizing the issuer's significant impact on the environment and natural resources		Our environment; Green business	92-106
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Our environment; Green business	92-106
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Caring for employees	107-118
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	People management	108-109
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	People management	109-110
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Occupational health and safety	110-113

Indicator		Chapter/Disclosure	Page
KPI B2.1	Number and rate of work-related fatalities.	There is no reported case of work-related fatalities during the Reporting Period.	N/A
KPI B2.2	Lost days due to work injury.	Not disclosed during the Reporting Period.	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Occupational health and safety	110-113
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Employee trainings	114-115
KPI B3.1	The percentage of employees trained by gender and employee category	Not disclosed during the Reporting Period	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Employee trainings	114
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		People management; There is no reported case of child labour or forced labour in 2019.	107
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	We review the "Recruitment Management Policy" annually to avoid the use of child labour and forced labour.	N/A
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	People management	107

Indicator		Chapter/Disclosure	Page
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supplier management	91
KPI B5.1	Number of suppliers by geographical region	Supplier management	91
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Not disclosed during the Reporting Period.	N/A
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Health and safety of products and services Green business Advertising, labelling and privacy We strictly comply with relevant laws to keep customers' privacy confidential. In 2019, there is no reported complain case concerning privacy. Our business does not involve advertising and labelling.	92-102
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable to our business.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed during the Reporting Period	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not disclosed during the Reporting Period.	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	Quality assurance process Green business Recall procedures Not applicable to our business.	92-102 N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Not disclosed during the Report Period.	N/A

Indicator		Chapter/Disclosure	Page
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering		Business integrity; We are not aware of any cases which are not compliance with relevant laws and regulations.	90
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	We are not aware of any legal cases which are on-going or brought against us or our employees in 2019 involving corruption, bribery ,extortion or money laundering.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Business integrity; Supplier management	90-91
Community			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Community contribution	119-120
KPI B8.1	Focus areas of contribution.	Not disclosed during the Reporting Period.	N/A
KPI B8.2	Resources contributed to the focus area.	Not disclosed during the Reporting Period.	N/A

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

We have audited the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 133 to 280, 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 profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition For water customers with water meters, the amount recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. This is a key judgment because the estimated usage is based upon historical data and assumptions around consumption patterns.	We have reviewed the design and implementation of management's controls around this risk. We have challenged the key assumptions and estimates made by management in recognising revenue. We performed detailed analytical procedures by comparing revenue balance for the year against the total sales value of units supplied at the year ended. We also assessed the adequacy of the Group's disclosures of its revenue recognition and other related disclosures.
Impairment assessment The Group has approximately HK$632,020,000, HK$516,226,000, HK$763,285,000 and HK$224,280,000 of property, plant and equipment, right-of-use assets, operating concession intangible assets and other intangible assets respectively. Their recoverable amount is based on an assessment of the greater of its fair value less cost of disposal and its value in use. Value in use is calculated as the net present value of estimated future cash flows. The Group's assessment of impairment is a judgmental process which requires estimates concerning the estimated future cash flows and associated discount and growth rate based on management's view of future business prospects.	We assessed and challenged the impairment analysis prepared by the board of directors as outlined below:– With regard to the overall impairment assessments performed by the board of directors, we evaluated the design of internal controls in place to check that the Group's assets are valued appropriately including those controls in place to determine any asset impairments or impairment reversals. We also reviewed the assets not assessed by management for impairment indicators and no indicators were identified. We assessed the qualification independence and reputation of the independent external valuation expert. We evaluated the reasonableness of the management cash flow forecasts by comparing the assumptions made to internal and external data. We tested these assumptions by reference to third party documentation where available.

KEY AUDIT MATTERS *(Continued)*

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the audit committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong, 24 April 2020

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Revenue	7	**1,189,201**	1,008,002
Cost of sales		**(692,049)**	(603,846)
Gross profit		**497,152**	404,156
Other operating income and expenses	9	**87,779**	69,854
Gain on disposal of associates		**110,847**	–
Gain on disposal of subsidiaries		**692**	–
Selling and distribution expenses		**(51,372)**	(40,325)
Administrative expenses		**(270,260)**	(237,013)
Finance costs	10	**(68,757)**	(47,559)
Change in fair value of investment properties	20	**5,216**	12,476
Net loss on financial assets at fair value through profit or loss		**(39,573)**	(26,778)
Impairment loss recognised on:			
property, plant and equipment	16	**(4,035)**	(4,950)
goodwill	21	**(1,351)**	(8,587)
other intangible assets	21	**(4,861)**	(10,093)
trade and other receivables, net	28	**(11,339)**	(6,513)
right-of-use assets	16	**(1,588)**	–
Share profit of associates	24	**2,181**	2,689
Share loss of joint ventures	25	**(2,717)**	(124)
Profit before taxation		**248,014**	107,233
Income tax	11	**(69,288)**	(41,651)
Profit for the year	12	**178,726**	65,582
Attributable to:			
Owners of the Company		**115,617**	6,646
Non-controlling interests		**63,109**	58,936
		178,726	65,582
Earnings per share (HK cents):	15		
Basic		**7.24**	0.42
Diluted		**7.24**	0.42

The notes on pages 143 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Profit for the year		**178,726**	65,582
Other comprehensive loss for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations			
Exchange difference arising during the year		**(30,866)**	(99,250)
		(30,866)	(99,250)
Financial assets at fair value through other comprehensive income:			
Net loss arising on revaluation of financial assets at fair value through other comprehensive income during the year		**(21,761)**	(10,508)
Share of other comprehensive loss of associates	*24*	**(704)**	(4,955)
Share of other comprehensive loss of joint ventures	*25*	**(375)**	(479)
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of investment properties upon transfer from property, plant and equipment		**13,531**	11,115
Deferred tax liability arising on gain on revaluation of investment properties		**(3,383)**	(2,779)
		10,148	8,336
Other comprehensive loss for the year, net of income tax		**(43,558)**	(106,856)
Total comprehensive income/(loss) for the year		**135,168**	(41,274)
Attributable to:			
Owners of the Company		**65,501**	(86,003)
Non-controlling interests		**69,667**	44,729
		135,168	(41,274)

The notes on pages 143 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**632,020**	907,612
Deposits paid for acquisition of property, plant and equipment		**6,506**	16,806
Deposits paid for acquisition of subsidiaries		**–**	3,416
Deposits paid for acquisition of right-of-use assets		**82,606**	–
Right-of-use assets	16	**516,226**	–
Prepaid lease payments	17	**–**	169,861
Operating concessions	18	**763,285**	636,312
Receivables under service concession arrangements	18	**19,218**	23,290
Investment properties	20	**89,114**	73,348
Other non-current assets	19	**–**	19,753
Other intangible assets	21	**224,280**	247,920
Financial assets at fair value through other comprehensive income	22	**9,193**	54,583
Interests in associates	24	**7,116**	6,133
Interests in joint ventures	25	**14,588**	11,721
Deferred tax assets	38	**8,574**	9,173
Deposit and prepayments	28	**59,000**	2,277
		2,431,726	2,182,205
Current assets			
Inventories	26	**636,239**	187,568
Receivables under service concession arrangements	18	**3,616**	4,158
Financial assets at fair value through profit or loss	22	**51,435**	84,015
Trade and other receivables	28	**1,130,014**	625,844
Prepaid lease payments	17	**–**	4,191
Contract assets	27	**52,240**	15,490
Cash held by financial institutions	29	**6,792**	2,371
Bank balances and cash	29	**404,593**	403,045
Amount due from a joint venture		**15,896**	228
		2,300,825	1,326,910
Assets held for sale	30	**27,178**	51,597
		2,328,003	1,378,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	**2019** *HK$'000*	2018 *HK$'000*
Current liabilities			
Overdraft held at financial institutions	*29*	**20,479**	55,550
Trade and other payables	*31*	**571,950**	285,374
Contract liabilities	*27*	**951,731**	309,371
Bank borrowings	*32*	**45,242**	55,362
Other loans	*33*	**167,029**	40,319
Lease liabilities	*34*	**122,624**	–
Obligations under finance leases	*34*	**–**	91,500
Amounts due to non-controlling shareholders of subsidiaries	*35*	**17,433**	695
Deposit received from disposal of associates		**–**	86,352
Amount due to associates		**–**	2,070
Deposit received from disposal of a subsidiary		**–**	5,693
Tax payables		**33,061**	20,508
		1,929,549	952,794
Liabilities directly associated with the assets held for sale	*30*	**–**	2,985
		1,929,549	955,779
Net current assets		**398,454**	422,728
Total assets less current liabilities		**2,830,180**	2,604,933
Capital and reserves			
Share capital	*36(b)*	**798,270**	798,270
Share premium and reserves		**486,627**	421,126
Equity attributable to owners of the Company		**1,284,897**	1,219,396
Non-controlling interests		**611,500**	543,014
TOTAL EQUITY		**1,896,397**	1,762,410

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Other payables	*31*	**13,097**	11,991
Bank borrowings	*32*	**79,040**	57,915
Other loans	*33*	**572,529**	544,725
Lease liabilities	*34*	**149,719**	–
Obligations under finance leases	*34*	**–**	117,167
Government grants	*37*	**28,243**	30,721
Deferred tax liabilities	*38*	**91,155**	80,004
		933,783	842,523
		2,830,180	2,604,933

Approved and authorised for issue by the board of directors on 24 April 2020:

Lin Yue Hui
Director

Liu Feng
Director

The notes on pages 143 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company										
	Share capital *HK$'000* *(note 36(b))*	Share premium *HK$'000* *(note 36(c))*	Revaluation reserve *HK$'000* *(note 36(c))*	Translation reserve *HK$'000* *(note 36(c))*	Reserve fund *HK$'000* *(note 36(c))*	Investment revaluation reserve *HK$'000* *(note 36(c))*	Fair value reserve (non-recycling) *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2018	798,270	954,318	2,420	22,968	56,047	405	–	(529,029)	1,305,399	514,237	1,819,636
Impact on initial application of HKFRS 9	–	–	–	–	–	(405)	405	–	–	–	–
Adjusted balance at 1 January 2018	798,270	954,318	2,420	22,968	56,047	–	405	(529,029)	1,305,399	514,237	1,819,636
Changes in equity for 2018:											
Profit for the year	–	–	–	–	–	–	–	6,646	6,646	58,936	65,582
Other comprehensive income for the year:											
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	5,669	–	–	–	–	–	5,669	5,446	11,115
Deferred tax arising from revaluation on investment property	–	–	(1,417)	–	–	–	–	–	(1,417)	(1,362)	(2,779)
Exchange difference arising on translation	–	–	–	(80,959)	–	–	–	–	(80,959)	(18,291)	(99,250)
Share of other comprehensive income of associates	–	–	–	(4,955)	–	–	–	–	(4,955)	–	(4,955)
Share of other comprehensive income of joint venture	–	–	–	(479)	–	–	–	–	(479)	–	(479)
Fair value loss on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(10,508)	–	(10,508)	–	(10,508)
Total comprehensive income for the year	–	–	4,252	(86,393)	–	–	(10,508)	6,646	(86,003)	44,729	(41,274)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	(2,207)	(2,207)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	1,186	1,186
Acquisition through business	–	–	–	–	–	–	–	–	–	3,159	3,159
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(18,090)	(18,090)
Transfers to reserve funds	–	–	–	–	19,665	–	–	(19,665)	–	–	–
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	(907)	907	–	–	–
At 31 December 2018	798,270	954,318	6,672	(63,425)	75,712	–	(11,010)	(541,141)	1,219,396	543,014	1,762,410

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company										
	Share capital *HK$'000* *(note 36(b))*	Share premium *HK$'000* *(note 36(c))*	Revaluation reserve *HK$'000* *(note 36(c))*	Translation reserve *HK$'000* *(note 36(c))*	Reserve fund *HK$'000* *(note 36(c))*	Investment revaluation reserve *HK$'000* *(note 36(c))*	Fair value reserve (non-recycling) *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2019	798,270	954,318	6,672	(63,425)	75,712	–	(11,010)	(541,141)	1,219,396	543,014	1,762,410
Changes in equity for 2019:											
Profit for the year	–	–	–	–	–	–	–	115,617	115,617	63,109	178,726
Other comprehensive income for the year:											
Gain on revaluation of investment property upon transfer from property, plant and equipment	–	–	6,899	–	–	–	–	–	6,899	6,632	13,531
Deferred tax arising from revaluation on investment property	–	–	(1,725)	–	–	–	–	–	(1,725)	(1,658)	(3,383)
Exchange difference arising on translation	–	–	–	(32,450)	–	–	–	–	(32,450)	1,584	(30,866)
Share of other comprehensive income of associates	–	–	–	(704)	–	–	–	–	(704)	–	(704)
Share of other comprehensive income of joint venture	–	–	–	(375)	–	–	–	–	(375)	–	(375)
Fair value loss on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(21,761)	–	(21,761)	–	(21,761)
Total comprehensive income for the year	–	–	5,174	(33,529)	–	–	(21,761)	115,617	65,501	69,667	135,168
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	2,048	2,048
Acquisition through business	–	–	–	–	–	–	–	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(3,229)	(3,229)
Transfers to reserve funds	–	–	–	–	19,113	–	–	(19,113)	–	–	–
Transfer of fair valve reserve upon the disposal of equity instruments at fair value through other comprehensive income	–	–	–	–	–	–	23,818	(23,818)	–	–	–
At 31 December 2019	798,270	954,318	11,846	(96,954)	94,825	–	(8,953)	(468,455)	1,284,897	611,500	1,896,397

The notes on pages 143 to 280 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
Operating activities		
Profit before taxation	**248,014**	107,233
Adjustments for:		
Depreciation of property, plant and equipment	**53,895**	73,929
Depreciation of right-of-use assets	**41,993**	–
Amortisation of prepaid lease payments	**–**	3,262
Amortisation of concession intangible assets	**44,844**	39,551
Amortisation of other intangible assets	**27,324**	31,707
Impairment loss recognised on:		
– property, plant and equipment	**4,035**	4,950
– goodwill	**1,351**	8,587
– other intangible assets	**4,861**	10,093
– trade and other receivables	**11,339**	6,513
– right-of-use assets	**1,588**	–
Change in fair value of investment properties	**(5,216)**	(12,476)
Finance costs	**68,757**	47,559
Interest income	**(15,031)**	(25,106)
Government grant income	**(10,040)**	(7,900)
Loss on disposal of property, plant and equipment and prepaid land lease, net	**1,578**	486
Net loss on financial assets at fair value through profit or loss	**39,573**	26,778
Net loss on disposal of concession intangible assets	**2,350**	748
Write off of accounts payable	**(113)**	(1,990)
Share of profit of associates	**(2,181)**	(2,689)
Share of loss of joint ventures	**2,717**	124
Net gain on disposal of subsidiaries	**(692)**	–
Net gain on disposal of associates	**(110,847)**	–
Changes in working capital:		
(Increase)/decrease in inventories	**(388,130)**	33,857
Increase in trade and other receivables	**(463,012)**	(116,835)
Decrease in receivables under services concession arrangements	**4,614**	6,423
(Increase)/decrease in contract assets	**(36,750)**	3,785
Increase in trade and other payables	**282,102**	52,004
Increase in contract liabilities	**642,360**	51,348
Cash generated from operations	**451,283**	341,941
Income taxes paid	**(50,459)**	(46,057)
Net cash generated from operating activities	**400,824**	295,884

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
Investing activities		
Acquisition of assets, net of cash acquired	–	(115)
Purchase of property, plant and equipment	**(19,148)**	(276,051)
Purchase of right-of-use assets	**(35,844)**	–
Deposits paid for acquisition of right-of-use assets	**(82,606)**	–
Deposits paid for acquisition of property, plant and equipment	**(1,538)**	(16,805)
Payments for acquisition of prepaid lease payment	–	(15,757)
Proceeds from disposal of property, plant and equipment	**2,593**	117
Acquisition of operating concessions	**(171,409)**	(103,009)
Acquisition of other intangible assets	–	(48)
Proceeds from disposal of financial assets at fair value through other comprehensive income	**23,629**	12,460
Purchase of financial assets at fair value through other comprehensive income	–	(58,950)
Proceeds from disposal of financial assets at fair value through profit or loss	**15,044**	173,737
Purchase of financial assets at fair value through profit or loss	**(22,037)**	(243,955)
Proceeds from disposal of subsidiaries	**1,992**	–
Proceeds from disposal of associates	**75,592**	–
Acquisition of subsidiaries, net of cash acquired	**(7,437)**	2,176
Deposits paid for acquisition of subsidiaries	–	(3,416)
Interest received	**15,031**	31,636
Loans to third parties	**(164,963)**	(290,179)
Repayment of loans from third parties	**53,467**	290,333
Refund of deposit paid for bidding land	–	118,600
Deposit received from disposal of associates	–	86,352
Government grants received	**8,126**	5,525
Deposit received from disposal of a subsidiary	–	5,693
Capital contribution to associates	**(2,218)**	(986)
Capital contribution to a joint venture	**(3,683)**	(12,324)
Net cash used in investing activities	**(315,409)**	(294,966)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
Financing activities		
Proceeds from new bank borrowings and other loans	**406,373**	189,031
Repayment of bank borrowings and other loans	**(332,443)**	(392,130)
Repayment of loans from third parties	**(13,670)**	(1,898)
Advanced from non-controlling shareholders	**16,738**	569
Capital contribution from non-controlling shareholders	**2,048**	1,186
Acquisition of non-controlling interests	**–**	(2,207)
Proceeds from obligations of finance leases	**–**	189,858
Repayments of finance leases	**–**	(73,695)
(Repayment to)/advance from associates	**(2,070)**	2,156
Advance to a joint venture	**(15,668)**	(228)
Capital element of lease rentals paid	**(138,242)**	–
Interest element of lease rentals paid	**(21,413)**	–
Loans from third parties	**91,842**	200,546
Interest paid	**(52,110)**	(51,224)
Dividend paid to non-controlling shareholders	**(3,229)**	(18,090)
Net cash (used in)/generated from financing activities	**(61,844)**	43,874
Net increase in cash and cash equivalents	**23,571**	44,792
Cash and cash equivalents at 1 January	**349,866**	297,883
Effect of foreign exchange rates changes	**17,469**	7,191
Cash and cash equivalents at 31 December	**390,906**	349,866
Analysis of the balance of cash and cash equivalents		
Cash held by financial institutions	**6,792**	2,371
Bank balances and cash	**404,593**	403,045
Overdraft held at financial institutions	**(20,479)**	(55,550)
Cash and cash equivalents at 31 December	**390,906**	349,866

The notes on pages 143 to 280 form part of these financial statements.

1. GENERAL

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

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. These financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") and Indonesia, whose functional currency is Renminbi ("RMB") and Rupiah respectively, the functional currency of the Company and its subsidiaries is HK$.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 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 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

The Group has initially applied HKFRS 16 as from 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.

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

a. 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.

b. 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 property, plant and equipment as disclosed in note 16. For an explanation of how the Group applies lessee accounting, see note 3(ac).

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 4.75%.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

b. 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:

(i) 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;

(ii) 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); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 41 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *HK$'000*
Operating lease commitments at 31 December 2018	**21,802**
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	**(1,829)**
	19,973
Less: total future interest expenses	**(1,486)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	**18,487**
Add: finance lease liabilities recognised as at 31 December 2018	**208,667**
Total lease liabilities recognised at 1 January 2019	**227,154**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

b. Lessee accounting and transitional impact (Continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal 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 statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as "right-of-use assets". There is no impact on the opening balance of equity.

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

	Carrying amount at 31 December 2018	Capitalisation of operating lease	Reclassification	**Carrying amount at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:				
Right-of-use assets	–	18,487	403,730	**422,217**
Property, plant and equipment	907,612	–	(229,678)	**677,934**
Prepaid lease payment (non-current)	169,861	–	(169,861)	**–**
Total non-current assets	2,182,205	18,487	4,191	**2,204,883**
Prepaid lease payment (current)	4,191	–	(4,191)	**–**
Total current assets	1,378,507	–	(4,191)	**1,374,316**
Lease liabilities (current)	–	(7,019)	(91,500)	**(98,519)**
Obligations under finance lease	(91,500)	–	91,500	**–**
Current liabilities	(955,779)	(7,019)	–	**(962,798)**
Net current assets	422,728	(7,019)	(4,191)	**411,518**
Total assets less current liabilities	2,604,933	11,468	–	**2,616,401**
Lease liabilities (non-current)	–	(11,468)	(117,167)	**(128,635)**
Obligations under finance lease	(117,167)	–	117,167	**–**
Total non-current liabilities	(842,523)	(11,468)	–	**(853,991)**
Net assets	1,762,410	–	–	**1,762,410**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the statement of cash flow.

d. 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 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.

e. Lessor accounting

In addition to leasing out the investment property referred to in paragraph d. above, the Group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries and the Group's interest in associates.

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

- investment property, including interests in leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (see note 3(i));

- financial instruments classified as financial assets measured at financial assets at fair value through other comprehensive income ("FVOCI") and financial assets carried at fair value through profit or loss ("FVPL") (see note 3(n)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 3(af)).

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c)(i) Business combinations

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

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

- deferred tax assets or liabilities, and assets and liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employer Benefits respectively;

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

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(d) Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

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

(e) Investments in subsidiaries and non-controlling interests

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

Investments in subsidiaries are included in the Company's statement of financial position at cost less impairment loss (note 3(o)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Investments in associates and joint ventures

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

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

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

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

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

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model of such of the long-term interests where applicable (see note 3(o)).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(g) Property, plant and equipment

The following items of property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 3(o)):

– interests in leasehold land and buildings where the Group is the registered owner of the property interest (see note 3(l));

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 3(ac)).

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

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

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Properties, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(ac)) held to earn rentals and/or for capital appreciation. These include land held for undetermined future use, and property that is being constructed or developed for future use as investment property.

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

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

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

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it was held under a finance lease (see note 3(ac)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 3(ac).

(j) Concession intangible assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Concession intangible assets *(Continued)*

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out in note 3(n) below.

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

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

(k) Intangible assets (other than goodwill)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Operating concessions

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

Exclusive rights

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

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

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

(l) Leasehold land and buildings for own use

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

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

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

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

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

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

(n) Classification and subsequent measurement of financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

All other financial assets are subsequently measured at FVPL.

Amortised cost and interest income

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Equity investments

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

(o) 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 the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, receivables under service concession arrangements, amount due from a joint venture and loans to third parties, which are held for the collection of contractual cash flows which represented solely payment of principal and interest); and

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

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

Measurement of ECLs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs *(Continued)*

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

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

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

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 of the following bases:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Basis of calculation of interest income

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

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

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 past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– goodwill;

– concession intangible assets;

– other intangible assets;

– deposits paid;

– other non-current assets; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Impairment of non-financial assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(iii) Credit losses from financial guarantees issued (Continued)

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 3(o)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(o)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(i) Properties held for/under development for sale

The cost of properties held for/under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads and borrowing costs capitalised. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

(ii) Trading goods

Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(q) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 3(aa)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 3(o)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 3(r)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 3(aa)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 3(r)).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Contract assets and contract liabilities *(Continued)*

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 3(aa)).

(r) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 3(q)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(o)(i)).

(s) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and financial institutions and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above. Cash and cash equivalents are assessed for expected credit losses (ECLs) in accordance with the policy set out in note 3(o)(i).

(t) Borrowings

Borrowings are measured initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 3(ad)).

(u) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(o)(iii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Equity-settled share-based payment transactions

(i) Share options granted to employees

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity (share options reserve). The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share options reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share options reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

(ii) Share options granted to eligible persons

Share options issued in exchange for services are measured at fair values of services received. The fair values of services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

(x) Other employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

The subsidiaries in the PRC participate in the Central Pension Scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are recognised as expenses as they fall due in accordance with the rules of the CPS.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Other employee benefits *(Continued)*

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(y) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are included in non-current liabilities as deferred government grants in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(z) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered). Deferred tax assets and liabilities are not discounted.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(aa) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income *(Continued)*

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

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Revenue arising from water supply is recognised based on water supplied as recorded by meter readings during the year.

Revenue from sewage treatment is recognised based on actual sewage treated from meter readings during the year.

Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.

Revenue from long-term construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (note 3(m)).

Revenue from the construction of water supply and sewage treatment plants under service concession agreements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Sales of electricity from the biogas power plant are recognised when electricity is generated and transmitted.

Tariff adjustment represents subsidy received and receivable from the local government authorities in respect of the Group's power generation business. Tariff adjustment is recognised at its fair value where there is reasonable assurance that the additional tariff will be received and the Group will comply with all attached conditions, if any.

Sales and distribution of natural gas are recognised when goods are delivered to the customers.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income *(Continued)*

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see note 3(q)).

Service income, consultancy fee, handling charges and cleaning income are recognised when services are provided.

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the gross carrying amount of the financial assets. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(o)(i)).

(ab) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. "HK$") using exchange rate prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ab) Foreign currencies *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(ac) Leased assets

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.

(i) As a lessee

(A) Policy applicable from 1 January 2019

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Leased assets *(Continued)*

(i) As a lessee (Continued)

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

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 and impairment losses (see notes 3(g) and 3(o)(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 3(i); and

– right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at cost in accordance with note 3(l).

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 presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Leased assets *(Continued)*

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease (see note 3(i)); and

– land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 3(g). Impairment losses were accounted for in accordance with the accounting policy as set out in note 3(o)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Leased assets *(Continued)*

(ii) 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 assets 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 3(aa).

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 to which the Group applies the exemption described in note 3(ac)(i), then the Group classifies the sub-lease as an operating lease.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

When the seller's risks and rewards incident to owning the underlying asset do not substantively change, the arrangement is that the seller borrows cash, secured by the underlying asset and repayable in instalments over the lease period.

(ad) Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ae) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(af) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(af) Non-current assets held for sale *(Continued)*

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non–current asset is not depreciated or amortised.

(ag) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ah) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's board of directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(ai) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

(a) Critical accounting judgments

(i) Classification of interests in leasehold land and buildings held for own use

In accordance with HKAS 16, Property, plant and equipment, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with notes 3(g) and (ac).

In making this judgment, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the Group's tenancy rights to others. These shorter term tenancy agreements are executed in order to retain operational flexibility and to reduce the Group's exposure to the property market fluctuation.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Useful lives and impairment assessment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at cost less accumulated depreciation and impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment and right-of-use assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss.

(ii) Provision of ECL for trade receivables and contract assets

Trade receivables and contract assets with significant balances and credit-impaired are assessed for ECL individually. The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in notes 28 and 27 respectively.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(iii) Impairment loss recognised in respect of other receivables and loan receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the carrying amounts of other receivables and loan receivables are approximately HK$111,695,000 (2018: HK$108,757,000) and HK$180,133,000 (2018: HK$77,145,000) respectively (net of accumulated loss allowance of approximately HK$10,862,000 (2018: HK$7,886,000) and HK$63,262,000 (2018: HK$56,279,000) respectively.

(iv) Impairment loss of operating concession and exclusive rights

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision. As at 31 December 2019, the carrying amounts of operating concession are approximately HK$763,285,000 (2018: HK$636,312,000). As at 31 December 2019, the carrying amounts of exclusive rights are approximately HK$182,718,000 (2018: HK$204,892,000) respectively (net of accumulated impairment losses of approximately HK$132,155,000 (2018: HK$102,570,000)).

(v) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill was approximately HK$41,562,000 (2018: HK$43,028,000) (net of accumulated impairment losses of approximately HK$236,355,000 (2018: HK$239,703,000)). Details of impairment testing on goodwill are set out in note 21.

(vi) Revenue from construction contracts

Revenue from construction contracts of certain water supply and sewage treatment of the Group are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Any change in these estimates will have an impact on the amount of contract revenue or contract loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(vii) Deferred tax assets

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

(viii) Estimation of water consumption

Determination of the revenue from the distribution and sale of water may include an estimation of the water supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

The actual consumption could deviate from those estimates.

(ix) Classification between operating concessions and receivables under service concession arrangements

As explained in note 3(j) to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at their fair values.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2019 were approximately HK$763,285,000 (2018: HK$636,312,000) and approximately HK$22,834,000 (2018: HK$27,448,000), respectively, further details of which are set out in note 18 to the financial statements.

(x) Fair value estimates on acquisition of subsidiaries

The initial accounting on the acquisition of subsidiaries involves identifying and determining the fair value of the consideration and the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entities will impact the carrying amounts of goodwill and the identifiable assets and liabilities.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty *(Continued)*

(xi) Determining the lease term

As explained in policy note 3(ac), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

5. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes various types of borrowings, such as bank borrowings, other loans, amount due to non-controlling shareholders of subsidiaries, loan from associates, obligation under finance leases and overdraft held at financial institutions, less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the raise of various types of borrowings, issuance of convertible bonds and new shares.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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

5. CAPITAL MANAGEMENT *(Continued)*

The gearing ratios as at 31 December 2019 and 2018 are as follows:

	2019	2018
	HK$'000	*HK$'000*
Overdraft held at financial institutions	**20,479**	55,550
Bank borrowings	**124,282**	113,277
Other loans	**739,558**	585,044
Amounts due to non-controlling shareholders of subsidiaries	**17,433**	695
Amounts due to associates	**–**	2,070
Lease liabilities (2018: obligations under finance leases)	**272,343**	208,667
Total debt	**1,174,095**	965,303
Less: Cash held by financial institutions	**(6,792)**	(2,371)
Bank balances and cash	**(404,593)**	(403,045)
Cash and cash equivalents	**(411,385)**	(405,416)
Net debt	**762,710**	559,887
Equity attributable to owners of the Company	**1,284,897**	1,219,396
Gearing ratio	**59.36%**	45.92%

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include financial assets at fair value through profit or loss, trade and other receivables, cash held at financial institutions, bank balances and cash, amount due from joint ventures, trade and other payables, bank borrowings, other loans and amounts due to non-controlling shareholders of subsidiaries. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to trade and other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with high credit rating assigned by international credit rating agencies, for which the Group considers to have low credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0-180 days (2018: 0-180 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets 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.

The Group used average loss rates ranging from 0.2% to 3.1% (2018: 0.2% to 3.1%). Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's of economic conditions over the expected lives of the receivables and were adjusted for any forward-looking information that was available without undue cost or effort.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

The movements in the loss allowances on trade receivables are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	**3,651**	3,848
Allowance/expected credit loss recognised, net	**1,206**	–
Exchange realignment	**(93)**	(197)
At 31 December	**4,764**	3,651

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$4,764,000 (2018: HK$3,651,000) which are long outstanding.

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during 2019:

– origination of new trade receivables net of those settled resulted in an increase in loss allowance;

– increase in days past due over 180 days resulted in an increase in loss allowance.

Other receivables

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL.

The movements in the loss allowances on other receivables are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	**7,886**	3,204
Allowance/expected credit loss recognised	**3,190**	5,050
Exchange realignment	**(214)**	(368)
At 31 December	**10,862**	7,886

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$10,862,000 (2018: HK$7,886,000) which are long outstanding.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

Loan receivables

Loss allowance in respect of loan receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

The movements in the loss allowances on loan receivables are as follows:

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**56,279**	54,844
Allowance/expected credit loss recognised	**6,943**	1,436
Exchange realignment	**40**	(1)
At 31 December	**63,262**	56,279

Included in the impairment loss are individually impaired loan receivables with an aggregate balance of HK$63,262,000 (2018: HK$56,279,000) which are long outstanding. The Group does not hold any collateral over these balances.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated based on interest rate current at the end of the reporting period.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

2019

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	585,047	–	–	–	585,047	585,047
Lease liabilities	138,195	94,617	69,653	737	303,202	272,343
Bank borrowings and other loans	255,217	257,944	294,701	149,694	957,556	863,840
Amounts due to non-controlling shareholders	17,433	–	–	–	17,433	17,433
	995,892	352,561	364,354	150,431	1,863,238	1,738,663

2018

	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	297,365	–	–	–	297,365	297,365
Obligations under finance lease	103,761	77,269	49,734	518	231,282	208,667
Bank borrowings and other loans	137,812	184,858	196,294	284,770	803,734	698,321
Amounts due to non-controlling shareholders	695	–	–	–	695	695
Amount due to associate	2,070	–	–	–	2,070	2,070
	541,703	262,127	246,028	285,288	1,335,146	1,207,118

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

Note:

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. Other lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2.

(c) Market risk

(i) Currency risk

Exposure to currency risk

Other than the subsidiaries established in the PRC and Indonesia whose functional currency is RMB and Rupiah respectively, the Company and its subsidiaries' functional currency is HK$. However, certain bank balances and other receivables are denominated in currencies other than HK$ held by the Company and its subsidiaries established in Hong Kong. Foreign currencies are also used to settle expenses for overseas operations.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollar, translated using the spot rate at the end of the reporting period.

	Exposure to foreign currencies (expressed in HK$'000)			
	2019		2018	
	USD	***RMB***	*USD*	*RMB*
Assets	**28**	**29**	418	145

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and decrease/ (increase) in accumulated losses
		HK$'000		*HK$'000*
Renminbi	**5%**	**1**	5%	6
	(5%)	**(1)**	(5%)	(6)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk

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

The Group is primarily exposed to fair value interest rate risk in relation to bank borrowings, other loans, lease liabilities (2018: obligations under finance leases) and amounts due to non-controlling shareholders of subsidiaries for the years ended 31 December 2019 and 2018. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The following table details the interest rate profile of the Group's interest-bearing financial liabilities at the end of the reporting period:

	2019		2018	
	Effective interest rate		Effective interest rate	
	%	***HK$'000***	%	*HK$'000*
Fixed rate borrowings:				
Bank borrowings	**4.32%-7.50%**	**41,564**	4.57%-8.00%	113,277
Other loans	**0%-24%**	**535,801**	0%-11.83%	384,584
Lease liabilities (note)	**4.75%-7.80%**	**272,343**	–	–
Obligations under finance leases	**–**	**–**	5.30%-7.80%	208,667
Amounts due to non-controlling shareholders of subsidiaries	**0%**	**17,433**	0%	695
Amounts due to associates	**–**	**–**	0%	2,070
		867,141		709,293
Variable rate borrowings:				
Bank borrowings	**4.75%-7.84%**	**82,718**	–	–
Other loans	**4.90%-7.43%**	**203,757**	5.20%-7.43%	200,460
		286,475		200,460
Total borrowings		**1,153,616**		909,753
Fixed rate borrowings as a percentage of total borrowings		**75%**		78%

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Note:

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. Under this approach, the comparative information is not restated. See note 2.

Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 50 basis points (2018: 50 basis points) with all other variables held constant, would have decreased/increased the Group's profit for the year (2018: decreased/increased the Group's profit for the year) and increased/decreased the accumulated losses by approximately HK$1,157,000 (2018: HK$752,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

The sensitivity analysis above has been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis as 2018.

(iii) Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities and unlisted fund investments. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the needs arise.

The Group's unlisted fund investments comprised mainly investments in private equity funds. The Group managed the equity price risk through diversification of investment portfolio. The underlying investments held by these funds include unlisted equity instruments, structured financing products and venture capital deals in various regions in the PRC. The fair values of these investments are affected by the market conditions in the abovementioned sectors, the overall capital market conditions, as well as the performance of individual investees of each of these funds. The investments held in the portfolio may be realised only after several years and their fair values may change significantly.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Market risk *(Continued)*

(iii) Equity price risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points (2018: 100 basis points) in the fair value of the Group's listed and unlisted equity securities, with all other variables held constant, would have increase/decrease the Group's profit after tax (and decrease/increase accumulated losses) and other components of equity by approximately HK$5,214,000 (2018: HK$12,473,000).

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the changes in fair value had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that all other variables remain constant. The analysis is performed on the same basis for 2018.

(d) Fair value measurements recognised in the statement of financial position

(i) Financial instruments carried at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the statement of financial position *(Continued)*

(i) Financial instruments carried at fair value (Continued)

Fair value hierarchy *(Continued)*

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group takes reference to the fair value of the financial assets based on the net asset value of the financial assets calculated on the last day of each calendar month and reported by the fund manager or engaged third party qualified valuers to perform the valuation. The Company's directors work closely with third party qualified valuers to establish the appropriate valuation techniques and inputs to the model.

		2019		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Assets				
Financial assets at FVPL				
Held-for-trading				
– listed equity securities	**40,272**	**–**	**–**	**40,272**
– unlisted fund investments	**–**	**–**	**11,163**	**11,163**
	40,272	**–**	**11,163**	**51,435**
Equity investments at FVOCI	**9,193**	**–**	**–**	**9,193**

		2018		
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Assets				
Financial assets at FVPL				
Held-for-trading				
– listed equity securities	84,015	–	–	84,015
Financial assets at FVOCI				
– Equity investments	54,583	–	–	54,583

During the years ended 31 December 2019 and 2018, there were no significant transfers between instruments levels.

6. FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Fair value measurements recognised in the statement of financial position *(Continued)*

(i) Financial instruments carried at fair value (Continued)

Valuation techniques and inputs used in Level 3 fair value measurements

The Group's unlisted financial assets measured at FVPL categorised in Level 3 comprise private equity funds. These private equity funds were managed by unrelated asset managers who applied various investment strategies to accomplish their respective investment objectives. The fair value of these funds is recorded based on valuations supplied by the fund managers. These valuations are measured by the percentage of ownership of the private equity's net asset value, which is an unobservable input.

(ii) Financial instruments carried at other than fair value

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

7. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15:		
Disaggregated by major products or service lines:		
Water supply services	**174,157**	162,595
Sewage treatment services	**49,731**	47,771
Water supply related installation and construction income	**285,474**	242,719
Water supply and sewage treatment infrastructure construction income	**171,525**	63,757
Sale of electricity	**443,087**	386,774
Sale of compressed natural gas	**28,327**	19,520
Service income from collection of landfill gas	**31,501**	27,030
Sales of property, investment and development	**5,399**	57,836
	1,189,201	1,008,002

Sales of electricity to provincial power grid companies included tariff adjustment received and receivable from the relevant government authorities.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 8.

8. SEGMENT REPORTING

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

During the year ended 31 December 2019, the board of directors of the Company has reassessed the Group's operations and measurement of financial performance assessment and identified property investment and development as a separate and reportable segment of the Group. Comparative figures have been reclassified to conform to the current year's segment presentation of the Group.

The Group has identified the following reportable segments:

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

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

(iii) "Property investment and development" segment, which derives revenues primarily from sale of commercial and residential units.

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

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results

Disaggregation of revenue from contracts with customers by the timing of revenue recognition as well as information regarding the Group's reportable and operating segments, are set out below.

For the year ended 31 December 2019

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Property investment and development *HK$'000*	Total *HK$'000*
Reportable segment revenue				
Disaggregated by timing of revenue recognition:				
Point in time	223,889	502,915	5,399	732,203
Over time	456,998	–	–	456,998
Reportable segment revenue	680,887	502,915	5,399	1,189,201
Reportable segment profit	187,512	164,592	(25,700)	326,404
Unallocated corporate expenses				(126,836)
Interest income				10,805
Interest on overdraft held at financial institutions				(3,148)
Interest on fixed coupon bonds				(31,177)
Net loss on financial assets at fair value through profit or loss				(39,573)
Gain on disposal of associates				110,847
Gain on disposal of subsidiaries				692
Profit before taxation				248,014

8. SEGMENT REPORTING *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2018*

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Property investment and development *HK$'000*	Total *HK$'000*
Reportable segment revenue				
Disaggregated by timing of revenue recognition:				
Point in time	232,244	433,324	57,836	723,404
Over time	284,598	–	–	284,598
Reportable segment revenue	516,842	433,324	57,836	1,008,002
Reportable segment profit	130,532	107,738	(11,454)	226,816
Unallocated corporate expenses				(72,482)
Interest income				21,696
Interest on overdraft held at financial institutions				(4,256)
Interest on fixed coupon bonds				(37,763)
Net loss on financial assets at fair value through profit or loss				(26,778)
Profit before taxation				107,233

* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, the comparative information is not restated. See note 2.

8. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2019

	Provision of water supply sewage treatment and construction services HK$'000	Exploitation and sale of renewable energy HK$'000	Property investment and development HK$'000	Corporate HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	3,805	100	321	10,805	–	15,031
Interest expenses	(3,453)	(17,850)	(38)	(47,416)	–	(68,757)
Share of profit/(loss) of associates	3,078	(630)	–	(267)	–	2,181
Share of loss of joint ventures	(473)	–	(1,871)	(373)	–	(2,717)
Depreciation of:						
– Property, plant and equipment	(4,385)	(44,212)	(539)	(4,759)	–	(53,895)
– Right-of-use assets	(1,215)	(30,584)	(2,899)	(7,295)	–	(41,993)
Amortisation of:						
– Concession intangible assets	(30,409)	(14,435)	–	–	–	(44,844)
– Other intangible assets	–	(27,324)	–	–	–	(27,324)
Gain/(loss) on disposal of property, plant and equipment	858	(2,632)	–	196	–	(1,578)
Gain on disposal of:						
– Associates	–	–	–	110,847	–	110,847
– Subsidiaries	–	–	–	692	–	692
Loss on disposal of concession intangible assets	(2,350)	–	–	–	–	(2,350)
Impairment loss recognised on:						
– Property, plant and equipment	–	(4,035)	–	–	–	(4,035)
– Goodwill	–	(1,351)	–	–	–	(1,351)
– Other intangible assets	–	(4,861)	–	–	–	(4,861)
– Trade and other receivables	(2,063)	(1,453)	(124)	(7,699)	–	(11,339)
– Right-of-use assets	(1,588)	–	–	–	–	(1,588)
Reportable segment assets	1,753,892	1,497,042	1,106,719	393,502	8,574	4,759,729
Additions to non-current assets	213,540	129,554	78,471	794	–	422,359
Reportable segment liabilities	(761,657)	(526,110)	(871,576)	(654,300)	(49,689)	(2,863,332)

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2018*

	Provision of water supply sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Property investment and development *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	3,294	116	48	21,648	–	25,106
Interest expenses	(1,389)	(8,407)	–	(37,763)	–	(47,559)
Share of profit/(loss) of associates	2,719	(30)	–	–	–	2,689
Share of loss of joint venture	(124)	–	–	–	–	(124)
Depreciation of:						
– Property, plant and equipment	(4,333)	(60,443)	(47)	(5,562)	(3,544)	(73,929)
Amortisation of:						
– Prepaid lease payments	(1,133)	(22)	(1,477)	(630)	–	(3,262)
– Concession intangible assets	(26,238)	(13,313)	–	–	–	(39,551)
– Other intangible assets	–	(31,707)	–	–	–	(31,707)
Gain/(loss) on disposal of property, plant and equipment and prepaid lease payments	(119)	(322)	–	(45)	–	(486)
Loss on disposal of concession intangible assets	(17)	(731)	–	–	–	(748)
Impairment loss recognised on:	–					
– Property, plant and equipment	–	(4,950)	–	–	–	(4,950)
– Goodwill	–	(8,587)	–	–	–	(8,587)
– Other intangible assets	–	(10,093)	–	–	–	(10,093)
– Trade and other receivables	(1,498)	(3,580)	–	(1,435)	–	(6,513)
Reportable segment assets	1,004,654	1,425,340	398,947	604,592	127,179	3,560,712
Additions to non-current assets	76,070	336,915	84,897	113,609	2,277	613,768
Reportable segment liabilities	(508,540)	(608,936)	(50,391)	(341,299)	(289,136)	(1,798,302)

* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, the comparative information is not restated. See note 2.

8. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

Segment assets include all tangible, intangible assets and current assets with the exception of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of overdraft held at financial institutions and other unallocated corporate liabilities.

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

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2018: Nil).

The measure used for reporting segment profit is "adjusted profit before tax". To arrive at adjusted profit before tax the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as interest on overdraft held at financial institutions, change in fair value of financial assets at fair value through profit or loss, net loss on disposal of investments, directors' and auditors' remuneration and other head office or corporate administration costs.

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	2019	2018
	HK$'000	*HK$'000*
Customer A – revenue from exploitation and sale of renewable energy	**126,899**	N/A*

* For the year ended 31 December 2018, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

9. OTHER OPERATING INCOME AND EXPENSES

	2019 HK$'000	2018 HK$'000
Interest income on:		
– bank deposits	**2,503**	3,673
– loans *(note (a))*	**12,528**	21,433
Total interest income on financial assets not at fair value through profit or loss	**15,031**	25,106
Government grants *(note 37)*	**10,040**	7,900
Handling charges	**2,276**	2,790
Cleaning income	**686**	613
Repair services income	**2,116**	2,194
Gross rentals from investment properties	**4,596**	4,561
Loss on disposal of property, plant and equipment and prepaid lease payments, net	**(1,578)**	(486)
Loss on disposal of concession intangible assets	**(2,350)**	(748)
VAT refund	**17,259**	8,831
Write off of accounts payable	**113**	1,990
Revenue from management services	**28,159**	1,406
Others	**11,431**	15,697
	87,779	69,854

Note:

(a) During 2019, the Group earned interest income of approximately HK$12.5 million (2018: HK$21.4 million) on loans to fourteen (2018: eleven) unrelated parties (note 33), which bears fixed interest ranging from 4% to 24% (2018: from 4% to 31%) per annum.

10. FINANCE COSTS

	2019 HK$'000	2018* HK$'000
Interest on:		
– bank borrowings	**7,508**	6,230
– other loans	**61,489**	45,794
– overdraft held at financial institutions	**4,347**	4,258
– lease liabilities	**21,412**	–
Finance charges on obligations under finance leases	**–**	10,034
Total borrowing cost	**94,756**	66,316
Less: interest capitalised included in construction in progress	**(25,999)**	(18,757)
	68,757	47,559

Included in construction-in-progress under concession intangible assets and property, plant and equipment are interest capitalised during the year of approximately HK$25,999,000 (2018: HK$18,757,000) at the capitalisation rate of 9.21% (2018: 7.63%) per annum.

* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, the comparative information is not restated. See note 2.

11. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	**–**	–
Current tax – PRC Enterprise Income Tax ("EIT")		
– Provision for the year	**65,513**	45,930
– Over provision in respect of prior years	**(1,902)**	(1,247)
Deferred tax *(note 38)*	**5,677**	(3,032)
	69,288	41,651

No provision for Hong Kong profit tax has been made for the years ended 31 December 2018 and 2019 as the Company and its subsidiaries did not have assessable profit subject to Hong Kong profit tax for these years.

11. INCOME TAX EXPENSE *(Continued)*

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

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

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

	2019	2018
	HK$'000	*HK$'000*
Profit before taxation	**248,014**	107,233
Notional tax on profit before taxation, calculated at the rate applicable to profits in the countries concerned	**64,720**	31,836
Tax effect of share of results of associates	**1,918**	(309)
Tax effect of share of results of joint venture	**586**	31
Tax effect of expenses not deductible for tax purposes	**139,108**	45,800
Tax effect of income not taxable for tax purposes	**(108,750)**	(29,559)
Effect on tax exemption granted to PRC subsidiaries	**(48,133)**	(25,514)
Tax effect of tax losses and deductible temporary differences not recognised	**21,741**	21,006
Utilisation of tax losses previously not recognised	**–**	(393)
Over provision in respect of prior years	**(1,902)**	(1,247)
	69,288	41,651

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2019 HK$'000	2018 HK$'000
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**198,006**	173,547
– Retirement benefits scheme contributions	**19,228**	16,870
Total staff costs	**217,234**	190,417
Amortisation of:		
– prepaid lease payments	**–**	3,262
– concession intangible assets	**44,844**	39,551
– other intangible assets	**27,324**	31,707
Depreciation charge *(note 16)*		
– owned property, plant and equipment*	**53,895**	73,929
– right-of-use assets*	**41,993**	–
Total minimum lease payments for lease previously classified as operating leases under HKAS 17*	**–**	8,990
Lease payments not included in the measurement of lease liabilities	**1,804**	–
Loss on disposal of property, plant and equipment and prepaid lease payment	**1,578**	486
Loss on disposal of concession intangible assets	**2,350**	748
Auditors' remuneration		
– audit services	**2,800**	3,475
– other services	**120**	924
Cost of inventories sold	**191,741**	178,941
Gross rental income from investment properties less direct outgoings of approximately HK$1,013,000 (2018: HK$637,000)	**3,583**	3,924

* 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 relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, all (2018: all) were directors and chief executive whose emoluments are set out in note 45.

14. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: Nil).

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2019	2018
	HK$'000	*HK$'000*
Profit attributable to the owners of the Company, used in the basic and diluted earnings per share	**115,617**	6,646
	No. of shares	No. of shares
	'000	*'000*
Weighted average number of ordinary shares – basic and diluted	**1,596,540**	1,596,540
Earnings per share (HK cents):		
Basic	**7.24**	0.42
Diluted	**7.24**	0.42

For the year ended 31 December 2019 and 2018, diluted earnings per share equals basic earnings per share as there was no dilutive potential share.

16. PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in land and buildings held for own use	Other properties leased for own use	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At 1 January 2018	–	–	106,896	513,334	14,530	29,119	124,594	788,473
Additions	–	–	2,822	189,026	3,192	13,834	137,363	346,237
Additions								
– interest capitalised	–	–	–	–	–	–	11,101	11,101
Acquisition through business combination	–	–	–	32,521	–	81	–	32,602
Transfer to investment properties	–	–	(6,508)	–	–	–	–	(6,508)
Transfer to inventories	–	–	–	–	–	–	(4,546)	(4,546)
Transfer	–	–	13,365	56,144	3,851	–	(73,360)	–
Disposals	–	–	(316)	(691)	(1,103)	(638)	–	(2,748)
Reclassification	–	–	(3,696)	(30,784)	–	–	–	(34,480)
Exchange realignment	–	–	(5,972)	(40,455)	(978)	(1,552)	(8,322)	(57,279)
At 31 December 2018	–	–	106,591	719,095	19,492	40,844	186,830	1,072,852
Impact on initial application of HKFRS 16*	–	18,487	–	–	–	–	–	18,487
At 1 January 2019	**–**	**18,487**	**106,591**	**719,095**	**19,492**	**40,844**	**186,830**	**1,091,339**
Additions	**37,549**	**3,066**	**21,567**	**89,779**	**5,081**	**702**	**109,924**	**267,668**
Additions								
– interest capitalised	**–**	**–**	**–**	**–**	**–**	**–**	**10,119**	**10,119**
Transfer from prepaid lease payment	**174,052**	**–**	**–**	**–**	**–**	**–**	**–**	**174,052**
Transfer from investment properties	**–**	**–**	**619**	**–**	**–**	**–**	**–**	**619**
Transfer to assets held for sale	**(16,445)**	**–**	**–**	**–**	**–**	**–**	**(11,857)**	**(28,302)**
Transfer	**–**	**429,957**	**3,781**	**(415,716)**	**25**	**–**	**(18,047)**	**–**
Transfer to inventories	**(33,207)**	**–**	**–**	**–**	**–**	**–**	**(39,623)**	**(72,830)**
Disposals	**–**	**–**	**(5,122)**	**(183)**	**(130)**	**(2,141)**	**(47)**	**(7,623)**
Reclassification	**–**	**–**	**–**	**(47)**	**–**	**–**	**–**	**(47)**
Exchange realignment	**(5,226)**	**–**	**(2,546)**	**(16,591)**	**(899)**	**(531)**	**(3,738)**	**(29,531)**
At 31 December 2019	**156,723**	**451,510**	**124,890**	**376,337**	**23,569**	**38,874**	**233,561**	**1,405,464**

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Ownership interests in land and buildings held for own use	Other properties leased for own use	Buildings	Plant and machinery	Leasehold improvements	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated depreciation and impairment:								
At 1 January 2018	–	–	13,643	76,723	8,355	14,584	3,430	116,735
Provided for the year	–	–	6,479	55,776	3,569	4,561	3,544	73,929
Transfer to investment properties	–	–	(463)	–	–	–	–	(463)
Eliminated on disposal	–	–	(215)	(503)	(1,053)	(376)	–	(2,147)
Impairment	–	–	–	4,950	–	–	–	4,950
Reclassification	–	–	(487)	(16,159)	–	–	–	(16,646)
Exchange realignment	–	–	(1,430)	(8,306)	(519)	(863)	–	(11,118)
At 31 December 2018 and 1 January 2019	**–**	**–**	**17,527**	**112,481**	**10,352**	**17,906**	**6,974**	**165,240**
Provided for the year	**4,335**	**37,658**	**5,079**	**36,491**	**3,326**	**5,037**	**3,962**	**95,888**
Transfer from investment properties	**1,088**	**–**	**(41)**	**–**	**–**	**–**	**–**	**1,047**
Transfer to assets held for sale	**(1,124)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,124)**
Eliminated on disposal	**–**	**–**	**(1,023)**	**(171)**	**(621)**	**(1,637)**	**–**	**(3,452)**
Transfer	**–**	**49,342**	**–**	**(49,342)**	**–**	**–**	**–**	**–**
Impairment	**1,588**	**–**	**–**	**4,035**	**–**	**–**	**–**	**5,623**
Reclassification	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exchange realignment	**(518)**	**(362)**	**(508)**	**(3,613)**	**(670)**	**(333)**	**–**	**(6,004)**
At 31 December 2019	**5,369**	**86,638**	**21,034**	**99,881**	**12,387**	**20,973**	**10,936**	**257,218**
Carrying values								
At 31 December 2019	**151,354**	**364,872**	**103,856**	**276,456**	**11,182**	**17,901**	**222,625**	**1,148,246**
At 31 December 2018	–	–	89,064	606,614	9,140	22,938	179,856	907,612

* The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 2.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

a. Right-of-use assets

The analysis of the net carrying value of right-of-use assets by class of underlying asset is as follows:

	Notes	At 31 December 2019 HK$'000	At 1 January 2019 HK$'000
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost in China, with remaining lease term of:	*(i)*		
– between 10 and 50 years		**151,354**	174,052
		151,354	174,052
Other properties leased for own use, carried at depreciated cost	*(ii)*	**13,749**	18,487
Plant and machinery carried out depreciated cost	*(iii)*	**351,123**	403,730
		364,872	422,217

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK$'000	2018* HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	**4,335**	3,262
Other properties leased for own use	**7,804**	–
Plant and machinery	**29,854**	–
	41,993	3,262
Interest on lease liabilities *(note 10)*	**21,412**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17*	**–**	8,990
Lease payments not included in the measurement of lease liabilities	**1,804**	–
	23,216	8,990

* 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 relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

a. Right-of-use assets *(Continued)*

During the year, additions to right-of-use assets were approximately HK$57,397,000. This amount included the purchase of a leasehold property of approximately HK$35,844,000, and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for lease and the materiality analysis of lease liabilities are set out in notes 29(b) and 34 respectively.

The Group regularly entered into short-term leases for office equipment. As at 31 December 2019, the outstanding lease commitments relating to these equipment was approximately HK$1,804,000.

The maturity analysis of lease liabilities is set out in note 34.

(i) Ownership interests in leasehold land and buildings held for own use

The Group holds land and buildings for its ordinary course of business. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties through tenancy agreements. The leases typically run for an initial period of 2 to 5 years.

(iii) Other leases

The Group leases production plant, machinery and office equipment under leases expiring from 1 to 5 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

(iv) At 31 December 2019, the approval for application of house proprietary certificate with the local government with a total carrying amount of approximately HK$15,242,000 (2018: other non-current assets of HK$19,753,000) were still in progress.

(v) Impairment assessment

Impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA, to perform valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, impairment losses approximately of HK$5,623,000 (2018: HK$4,950,000) was recognised during the year.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

b. The analysis of the classification of property, plant and equipment as follows:

	2019	2018
	HK$'000	*HK$'000*
Property, plant and equipment	**632,020**	907,612
Right-of-use assets	**516,226**	–
	1,148,246	907,612

c. Impairment loss

During the year, the garbage delivered to the landfill site dropped significantly in Shandong Qiyao New Energy Company Limited ("Shandong Qiyao") and Nanjing Feng Shang New Technology Limited Liability Company ("Nanjing Feng Shang"), the landfill gas was insufficient for use in certain production equipment. Both subsidiaries has experienced significant drop in revenue and gross loss during the year. The management of the Group therefore performed an impairment review of the recoverable amount related to Shandong Qiyao and Nanjing Feng Shang. For the purposes of impairment testing of property, plant and equipment and right-of-use assets of these two subsidiaries were allocated to their respective cash generating unit ("CGU") of collection and utilisation of landfill gas.

The recoverable amount of the relevant cash-generating units of approximately HK$781,821,000 (RMB687,254,000) was determined on the basis of value in use calculations. Value in use calculations was based on the discount rate of 13.4%-15.1% and cash flow projections prepared from financial forecasts approved by the management for the next five years. The cash-generating unit cash flows beyond the 5-year period were extrapolated using a growth rate of 2%-3%. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows which included budgeted sales and expected gross margins during the budget period which had been determined based on past performance and management's expectations for the market development.

In performing the impairment testing, the directors of the Company had also made reference to valuation performed by independent professional valuers.

During the year ended 31 December 2019, impairment losses of approximately HK$4,035,000 (RMB3,547,000) and approximately HK$1,588,000 (RMB1,396,000) have been recognised in property, plant and equipment and right-of-use assets respectively.

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments in relation to land use rights in the PRC, and analysed for reporting purposes as follows:

	2018 *HK$'000*
At 1 January	139,581
Additions	15,757
Acquisition through assets acquisition	62,552
Transfer to investment properties	(554)
Transfer to inventories	(32,866)
Amortisation for the year	(3,262)
Exchange realignment	(7,156)
At 31 December	174,052
Current assets	4,191
Non-current assets	169,861
	174,052

The Group's prepaid lease payments represent payments for land use rights in the PRC, Prepaid lease payments were reclassified to right-of-use assets upon application of HKFRS 16.

18. CONCESSION INTANGIBLE ASSETS

As further explained in the accounting policy for "service concession arrangements" set out in note 3(j) to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

Operating concessions

	2019	2018
	HK$'000	*HK$'000*
Cost		
At 1 January	**843,017**	740,226
Additions	**171,409**	119,263
Additions – interest capitalised	**15,880**	7,656
Disposal	**(4,278)**	(19,652)
Reclassification	**–**	34,480
Exchange realignment	**(19,493)**	(38,956)
At 31 December	**1,006,535**	843,017
Accumulated amortisation and Impairment		
At 1 January	**206,705**	161,940
Provided for the year	**44,844**	39,551
Eliminated on disposal	**(1,928)**	(2,105)
Reclassification	**–**	16,646
Exchange realignment	**(6,371)**	(9,327)
At 31 December	**243,250**	206,705
Carrying values		
At 31 December	**763,285**	636,312

18. CONCESSION INTANGIBLE ASSETS *(Continued)*

Receivables under service concession arrangements

	2019	2018
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**22,834**	27,448
Impairment	**–**	–
	22,834	27,448
Portion classified as current assets	**(3,616)**	(4,158)
Non-current portion	**19,218**	23,290

The subsidiaries of the Group, Yichun Water Industry Group Co., Limited (formerly known as Yichun Water Industry Co., Limited) ("Yichun Water"), Linyi Fenghuang Water Industry Co., Ltd ("Linyi Fenghuang") and Yingtan Water Supply Group Co., Ltd ("Yingtan Water Supply") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of water supply plant and was granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant.

The subsidiaries of the Group, Yichun Fangke Sewage Treatment Company Limited ("Yichun Fangke"), Jining City Haiyuan Water Treatment Company Limited ("Jining Haiyuan") and Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of sewage treatment plant and was granted with an exclusive operating right for provision of sewage treatment services to the public users for a period ranging from 25 years to 29 years, commencing from the operation of the respective waste treatment plant.

The subsidiaries of the Group, Chengdu City Green State Renewable Energy Co., Limited ("Chengdu City Green State") and Chongqing Camda New Energy Equipment Company Limited entered into the service concession arrangement with the respective local government whereby the subsidiary is required to build the infrastructure of electricity plant and was granted with an exclusive operating right for provision of electricity services to the respective local government for a period of 10.5 years and 19.5 years respectively commencing from the operation of respective electricity plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights since commencement of operations. The receipt from these service concession arrangement, are contingent on the extent that public uses the services.

For the year ended 31 December 2019, the Group has recognised service concession construction revenue of approximately HK$171,525,000 (2018: HK$63,757,000) and profit of approximately HK$19,714,000 (2018: HK$5,363,000) during the construction periods of the service concession periods.

18. CONCESSION INTANGIBLE ASSETS *(Continued)*

Receivables under service concession arrangements *(Continued)*

The recoverable amounts of the CGUs under water supply and sewage treatment which contain concession intangible assets is determined by using value-in-use calculation with reference to the valuation performed by AVISTA. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and pre-tax discount rate of 11.0% – 12.0% (2018: 12.7% – 14.3%). Cash flows beyond the five-year period have been extrapolated using a steady 3% (2018: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

19. OTHER NON-CURRENT ASSETS

	2019	2018
	HK$'000	*HK$'000*
At fair value		
At 1 January	**19,753**	20,832
Transfer to property, plant and equipment	**(19,748)**	–
Exchange realignment	**(5)**	(1,079)
At 31 December	**–**	19,753

During 2015, Yingtan Water Supply entered into agreements with a local government office to transfer all units of the investment property (the "Resumption Properties") to the local government for the development of a composite project, which Yingtan Water Supply will receive compensation including transfer of certain construction floor areas of the new premises (the "New Premises").

The fair value of the New Premises at the date of transfer has been arrived at on the basis of a valuation carried out as at that date by AVISTA, by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values. The fair value of the New Premises, estimated at HK$21,563,000, was recognised as deemed consideration during the year ended 2015.

The carrying amount of the New Premises, classified as other non-current assets, at 31 December 2018 was approximately HK$19,753,000.

During the year ended 31 December 2019, upon completion of all the construction of New Premises, the New Premises were therefore transferred to "Property, plant and equipment".

20. INVESTMENT PROPERTIES

	2019 HK$'000	2018 HK$'000
At fair value		
At 1 January	**73,348**	46,792
Reclassified as investment properties during the year	**(660)**	6,599
Fair value recognised in revaluation reserve	**13,531**	11,115
Fair value gain recognised for the year	**5,216**	12,476
Exchange realignment	**(2,321)**	(3,634)
At 31 December	**89,114**	73,348

The Group leases out investment properties under operating leases. The leases typically run for an initial period to 3 to 15 years. None of the leases include variable lease payments.

Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

2019	Fair value at 31 December HK$'000	Fair value measurements 31 December categorised into Level 1 HK$'000	 Level 2 HK$'000	 Level 3 HK$'000
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	**89,114**	**–**	**–**	**89,114**

20. INVESTMENT PROPERTIES *(Continued)*

Fair value measurement of properties *(Continued)*

(i) Fair value hierarchy (Continued)

2018	Fair value at 31 December HK$'000	Fair value measurements 31 December categorised into Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurement				
Investment properties:				
– Commercial – PRC	73,348	–	–	73,348

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2019. The valuations were carried out by AVISTA or Shenzhen Pengxin who have recent experience in the location and category of property being valued. The Company's directors have discussion with the valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

The fair value of the investment properties has been arrived by adopting the income method by taking into account the net rental income of the property achievable in the existing market with due allowance for the reversionary income potential of the leases. Rental income achievable are analysed in order to arrive at fair capital values.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range 2019
Investment properties I			
Commercial – PRC	Income approach (term and reversionary method)	Term and reversionary yield	5% to 8.25% (2018: 5% to 9%)
Investment Properties II			
Commercial – PRC	Income approach (capitalisation method)	Estimated rental value (per square meter and per month)	HK$68 (2018: HK$71)
		Capitalisation rate	6.5% (2018: 6.5%)
		Rental growth rate	3% (2018: 3%)

20. INVESTMENT PROPERTIES *(Continued)*

Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements (Continued)

The fair value of investment properties located in the PRC as at 31 December 2019 is determined by using income approach (term and reversionary method of capitalisation method) which largely used observable inputs (e.g. market rent, yield, etc) and taking into account on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease. The higher the vacancy rate, term and reversionary yield and capitalisation rate, the lower the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2019	2018
	HK$'000	*HK$'000*
Investment properties – Commercial – PRC		
At 1 January	**73,348**	46,792
Reclassified as investment properties during the year	**(660)**	6,599
Fair value recognised in revaluation reserve	**13,531**	11,115
Net gain from a fair value adjustment recognised in change in fair value of investment property in profit or loss	**5,216**	12,476
Exchange realignment	**(2,321)**	(3,634)
At 31 December	**89,114**	73,348

Exchange adjustment of investment property are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

21. OTHER INTANGIBLE ASSETS

	Goodwill	Exclusive rights of collection and utilisation of landfill gas	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2018	292,418	314,199	606,617
Acquisition of exclusive rights	–	48	48
Acquisition of subsidiaries *(note 39)*	5,942	10,332	16,274
Exchange realignment	(15,629)	(17,117)	(32,746)
At 31 December 2018 and 1 January 2019	**282,731**	**307,462**	**590,193**
Acquisition of exclusive rights	**–**	**164**	**164**
Acquisition of subsidiaries *(note 39)*	**718**	**13,616**	**14,334**
Exchange realignment	**(5,532)**	**(6,369)**	**(11,901)**
At 31 December 2019	**277,917**	**314,873**	**592,790**
Accumulated amortisation and impairment			
At 1 January 2018	244,105	65,857	309,962
Amortisation	–	31,707	31,707
Impairment loss recognised for the year	8,587	10,093	18,680
Exchange realignment	(12,989)	(5,087)	(18,076)
At 31 December 2018 and 1 January 2019	**239,703**	**102,570**	**342,273**
Amortisation	**–**	**27,324**	**27,324**
Impairment loss recognised for the year	**1,351**	**4,861**	**6,212**
Exchange realignment	**(4,699)**	**(2,600)**	**(7,299)**
At 31 December 2019	**236,355**	**132,155**	**368,510**
Carrying values			
At 31 December 2019	**41,562**	**182,718**	**224,280**
At 31 December 2018	43,028	204,892	247,920

(i) The exclusive rights acquired upon acquisition of subsidiaries were initially recognised at fair value at the acquisition date. The exclusive rights acquired separately were initially recognised at cost. Amortisation expense for the year ended 31 December 2019 was approximately HK$27,324,000 (2018: HK$31,707,000), of which approximately HK$27,150,000 (2018: HK$24,381,000) and approximately HK$174,000 (2018: HK$7,326,000) were recorded into cost of sales and administrative expenses, respectively.

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to fourteen (2018: fifteen) individual cash generating unit ("CGUs"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2019 and 2018 allocated to these units are as follows:

	2019 HK$'000	2018 HK$'000
Collection and utilisation of landfill gas		
Shenzhen City Li Sai Industrial Development Limited	**11,574**	11,804
Datang Huayin Chenzhou Environmental Power Company Limited ("Chenzhou Environmental")	**2,623**	2,675
Datang Huayin Heng Yang Environmental Power Company Limited ("Heng Yang Environmental")	**4,653**	4,745
Baoji City Electric Power Development Co., Limited ("Baoji")	**1,349**	1,376
Chongqing Camda New Energy Equipment Company Limited ("Chongqing Camda")	**2,377**	2,424
Ningbo Qiyao New Energy Company Limited ("Ningbo Qiyao")	**75**	77
Datang Huayin Xiangtan Environmental Electricity Generation Company Limited ("Datang Huayin Xiangtan")	**1,113**	1,135
Shandong Qiyao New Energy Company Limited ("Shandong Qiyao")	**–**	1,352
Chengdu City Green State Renewable Energy Co., Limited ("Chengdu City Green State")	**11,745**	11,979
Dongyang Grand Energy Co., Ltd. ("Dongyang Grand")	**5,354**	5,461
Guangxi Ruirong Energy Technology Co., Limited	**699**	–
Water supply and sewage treatment		
Blue Mountain Hong Kong Group Limited ("Blue Mountain")*	**–**	–
Onfar International Limited ("Onfar")	**–**	–
Jining City Haiyuan Water Treatment Company Limited ("Jining Haiyuan")	**–**	–
	41,562	43,028

* The disposal of Blue Mountain was completed on 24 January 2019 (see note 24(ii)).

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGU to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of approximately HK$236,355,000 (2018: HK$239,703,000) as at 31 December 2019 in relation to goodwill arising on acquisition of the subsidiaries.

21. OTHER INTANGIBLE ASSETS *(Continued)*

Impairment test on goodwill *(Continued)*

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Collection and utilisation of landfill gas

The recoverable amount of the CGUs under the collection and utilisation of landfill gas is determined based on value-in-use calculations with reference to a valuation performed by AVISTA. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2% – 3% (2018: 0% – 3%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.4% – 15.1% (2018: 14% – 23.6%). The discount rates used are pre-tax and reflect specific risks relating to the relevant industry.

The recoverable amount of the CGUs at 31 December 2019 was approximately HK$781,821,000 (RMB687,254,000) (2018: HK$761,900,000 (RMB669,252,000)).

During the year ended 31 December 2019, in light of the operating loss of Shandong Qiyao, an impairment loss was made on goodwill of HK$1,351,000 (RMB1,188,000). The recoverable amount of this CGU at 31 December 2019 was approximately HK$11,332,000 (RMB10,151,000).

During the year ended 31 December 2018, in light of the operating loss of Nanjing Feng Shang, an impairment loss was made on goodwill of HK$8,587,000 (RMB7,542,000). The recoverable amount of this CGU at 31 December 2018 was approximately HK$16,861,000 (RMB14,810,000).

Water supply and sewage treatment

No further impairment charge arose during the course of year 2019 as impairment on the goodwill had been fully provided in the previous years.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Listed equity securities, at fair value	**49,465**	138,598
Unlisted fund investments, at fair value	**11,163**	–
	60,628	138,598
Classified as:		
Financial assets at fair value through profit or loss		
– Current	**51,435**	84,015
Financial assets at fair value through other comprehensive income		
– Non-current	**9,193**	54,583
	60,628	138,598

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

The unlisted fund investments represented investments in funds in the PRC. Details of fair value measurement are set out in note 6(d).

23. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the subsidiaries of the Group as at 31 December 2019. The class of shares held is ordinary, unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Billion City Investments Limited	British Virgin Islands ("BVI")/ Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Onfar International Limited ("Onfar")	BVI/Hong Kong	US$100	–	100%	Investment holding	Private limited liability company
Yichun Water Industry Group Co., Limited* (Formerly known as Yichun Water Industry Co., Limited) ("Yichun Water")	PRC	RMB45,500,000	–	51%	Provision of water supply and installation of water supply facilities	Chinese foreign equity joint venture
Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke")	PRC	RMB115,000,000	–	54.33%	Sewage treatment	Domestic enterprise
Yichun City Water Supply Engineering Limited*	PRC	RMB5,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yichun Kun Lun Information Technology Company Limited* ("Yichun Kun Lun")	PRC	RMB2,000,000	–	100%	Information services	Domestic enterprise
Jiangxi Dekang Purified Water Company Limited*	PRC	RMB4,540,000	–	100%	Exploitation, production and sale of purified and drinking system	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Jiangxi Dekang Environmental Testing and Development Limited*	PRC	RMB2,700,000	–	100%	Environmental testing and product testing	Domestic enterprise
Nourish Gain Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
China Ace Investment Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan")	PRC	RMB40,000,000	–	70%	Sewage treatment	Chinese foreign equity joint venture
Swan (Huizhou) Investment Company Limited*	PRC	US$33,568,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Swan (Huizhou) Creative Technology Company Limited*	PRC	RMB175,000,000	–	100%	Renewable energy technology development	Domestic enterprise
Huizhou Swan Heng Chang Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
Huizhou Swan Dadi Property Development Company Limited*	PRC	RMB50,000,000	–	100%	Property development	Domestic enterprise
China Water Industry (HK) Ltd	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Linyi Fenghuang Water Industry Co., Ltd* ("Linyi Fenghuang")	PRC	RMB30,000,000	–	60%	Provision of water supply	Chinese foreign equity joint venture
Shenzhen Haisheng Environmental Sci-Tech Company Limited*	PRC	RMB15,802,400	–	100%	Installation of water suppliers facilities	Wholly-owned foreign enterprise
Shenzhen Shi Guang Company Limited*	PRC	RMB1,000,000	–	100%	Trading company	Domestic enterprise
Shi Guang Limited	Hong Kong	HK$10,000	–	100%	Trading company	Private limited liability company
Yingtan Water Supply Group Co., Ltd* (Yingtan Water Supply)	PRC	RMB66,008,000	–	51%	Provision of water supply	Chinese foreign equity joint venture
Jiangxi Shunda Construction Engineering Limited*	PRC	RMB20,500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	RMB500,000	–	100%	Installation of water supply facilities	Domestic enterprise
Zhongkuang Construction Group Co. Ltd. (Formerly known as Jiangxi Hualei Construction Co., Limited)	PRC	RMB100,000,000	–	100%	Installation of water supply facilities	Domestic enterprise
Yingtan Xiang Rui Property Limited* ("Yingtan Xiang Rui")	PRC	RMB20,000,000	–	100%	Property development	Domestic enterprise
Yingtan City Plumbing and Drainage Investigation and Design Company Limited*	PRC	RMB500,000	–	100%	Design of water pipeline network	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Nanjing Feng Shang New Technology Limited Liability Company* ("Nanjing Feng Shang") *(note ii)*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Renewable Resources Investment Company Limited* ("New China Water (Nanjing)")	PRC	US$82,880,000	–	100%	Exploitation, generation and sale of renewable energy	Wholly-owned foreign enterprise
Changsha New China Water Environmental Technology Limited* (Formerly known as Changsha Huiming Recycling Resources Technology Limited)	PRC	RMB50,000,000	–	94.6	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City Li Sai Industrial Development Limited* ("Shenzhen Li Sai")	PRC	RMB50,000,000	–	88%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City New China Water Environmental Technology Limited* ("Shenzhen New China Water")	PRC	RMB80,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Qingyuan City Greenspring Environmental Technology Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hunan Huiming Environmental Technology Limited ("Hunan Technology")	PRC	RMB18,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Hunan Liuyang New China Water Environmental Technology Limited* (Formerly known as Hunan Feng Ming Energy Technology Limited)	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Wuzhou City China Water New Renewable Resources Company Limited *("Wuzhou New China Water") *(note i)*	PRC	RMB15,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Chenzhou Environmental Power Company Limited* ("Chenzhou Environmental") *(note 38(f))*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Heng Yang Environmental Power Company Limited* ("Heng Yang Environmental") *(note 38(g))*	PRC	RMB4,100,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Baoji City Electric Power Development Co., Ltd* (Baoji") *(note 38(e))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chongqing Camda New Energy Equipment Company Limited* ("Chongqing Camda") *(note 38(h))*	PRC	RMB20,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Hainan Camda New Energy Equipment Company Limited* ("Hainan Camda") *(note 38(i))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
New China Water (Nanjing) Carbon Company Limited*	PRC	RMB45,800,000	–	100%	Property development	Domestic enterprise
New China Water (Nanjing) Energy Company Limited*	PRC	RMB53,000,000	–	100%	Property development	Domestic enterprise
New China Water (Hexian) Recycling Resources Technology Limited*	PRC	HK$14,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Yichun City New China Water Energy Technology Limited*	PRC	RMB14,700,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shenzhen City New China Water Electric Power Limited*	PRC	RMB30,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Ningbo Qiyao New Energy Company Limited* (Ningbo Qiyao") *(note 38(b))*	PRC	RMB8,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Datang Huayin Xiangtan Environmental Electricity Generation Company Limited*("Datang Huayin Xiangtan") *(note 38(d))*	PRC	RMB10,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities	Legal form
Xinhua New China Water Environmental Technology Limited*	PRC	RMB4,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Shandong Qiyao New Energy Company Limited* ("Shandong Qiyao") *(note 38(c))*	PRC	RMB7,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Anqiu City New China Water Environmental Technology Limited*	PRC	RMB12,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Jining City Haisheng Water Treatment Company Limited*	PRC	RMB19,000,000	–	100%	Sewage treatment	Domestic enterprise
Fengcheng City New China Water Energy Technology Limited*	PRC	RMB5,000,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Chengdu City Green State Renewable Energy Co., Limited* ("Chengdu City Green State") *(note 38(a))*	PRC	RMB47,000,000	–	49%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Zhangjiakou New China Water Energy Technology Limited*	PRC	RMB16,000,000	–	70%	Exploitation, generation and sale of renewable energy	Domestic enterprise
Hainan Danzhou New China Water Environmental Technology Limited*	PRC	RMB3,500,000	–	100%	Exploitation, generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Hong Kong New China Water Renewable Resources Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Conquer Asia Development Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Happy Hour Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Mascot Industries Limited	Hong Kong	HK$2	–	100%	Investment holding	Private limited liability company
Smart Giant Group Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Blue Mountain Hong Kong Group Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Swift Surplus Holdings Limited	BVI/Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Mark Profit Group Holdings Limited	Hong Kong	HK$1	–	100%	Investment holding	Private limited liability company
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	HK$12,000,000	–	100%	Investment holding	Wholly-owned foreign enterprise
Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin")	PRC	RMB10,000,000	–	70%	Sewage treatment	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Bonus Raider Investments Limited	BVI/Hong Kong	US$1	100%	–	Investment holding	Private limited liability company
Bloom Profit Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
Hong Kong Glass Resources Limited	Hong Kong	HK$100	–	100%	Glass Recycling	Private limited liability company
Hong Kong Glass Reborn Limited	Hong Kong	HK$5,000,000	–	70%	Glass Recycling	Private limited liability company
South Top Investment Ltd.	Hong Kong	HK$1	100%	–	Provision of administrative services	Private limited liability company
Neutral Crown Holdings Limited	BVI / Hong Kong	US$100	100%	–	Investment holding	Private limited liability company
Victory Strategy Investment Limited	Hong Kong	HK$100	–	100%	Investment holding	Private limited liability company
PT. CWI Energy Indonesia	Indonesia	IDR55,000,000,000	–	94%	Exploitation generation and sale of renewable energy	Private limited liability company
Hainan Sanya New China Water Environmental Technology Limited	PRC	RMB6,500,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Chenzhou New China Water Environmental Technology Limited	PRC	RMB1,500,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Swan (Huizhou) Environmental Technology Company Limited	PRC	RMB42,978,600	–	100%	Dormant	Domestic enterprise
Dongyang Grand Energy Co., Ltd.	PRC	RMB10,000,000	–	90%	Exploitation generation and sale of renewable energy	Domestic enterprise
Haicheng City New China Water Environmental Technology Limited	PRC	RMB3,500,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Anlu City New China Water Environmental Technology Limited	PRC	RMB5,300,000	–	90%	Exploitation generation and sale of renewable energy	Domestic enterprise
Laizhou City New China Water Environmental Technology Limited	PRC	RMB26,000,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Huizhou Hung Tai Heng Chang Property Development Company Limited	PRC	RMB300,000	–	51%	Dormant	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Shenzhen City Haide Medical Technology Co. Limited	PRC	RMB2,000,000	–	100%	Dormant	Domestic enterprise
Jiangxi Deyin Industries Limited	PRC	RMB5,000,000	–	100%	Property development	Domestic enterprise
Yingtan City Hongzhu Trading Co. Limited	PRC	RMB2,000,000	–	100%	Trading development	Domestic enterprise
Linyi Water Pipe Construction Co. Limited	PRC	RMB30,000,000	–	100%	Dormant	Domestic enterprise
Zhijiang Xinzhongshui Chufeng Environmental Protection Technology Co., Ltd.	PRC	RMB546,000	–	51%	Exploitation generation and sale of renewable energy	Domestic enterprise
Jiangxi Hanhe Enterprise Development Co., Ltd.	PRC	RMB8,000,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Guangxi Ruirong Energy Technology Co., Ltd.	PRC	RMB2,950,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Hainan Lingao Greenspring Environmental Technology Limited	PRC	RMB10,000,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Gaizhou City New China Water Environmental Technology Limited	PRC	RMB300,000	–	100%	Exploitation generation and sale of renewable energy	Domestic enterprise
Guangdong Swan Shunxiang Property Development Limited	PRC	RMB5,100,000	–	51%	Dormant	Domestic enterprise

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Legal form
			Directly	Indirectly		
Shenzhen Hainengda Technology Development Co., Ltd.	PRC	RMB5,000,000	–	100%	Dormant	Domestic enterprise
Shenzhen City China Water Zeyuan Technology & Environment Co. Limited	PRC	RMB5,100,000	–	51%	Dormant	Domestic enterprise
Yingtan City Hongji Construction Materials Technology Limited	PRC	RMB1,020,000	–	51%	Dormant	Domestic enterprise

* The English names are for identification purpose only.

Notes:

None of the subsidiaries has issued any debt securities subsisting at the end of 2019 and 2018 or at any time during the years ended 31 December 2019 and 2018.

23. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table lists out the information relating to each of the Group's subsidiaries which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Yingtan Water Group		Yichun Water Group	
	2019	2018*	**2019**	2018*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
NCI percentage	**49%**	49%	**49%**	49%
Current assets	**1,154,474**	372,440	**146,103**	146,750
Non-current assets	**465,212**	366,827	**317,670**	266,078
Current liabilities	**(990,142)**	(183,830)	**(116,519)**	(109,848)
Non-current liabilities	**(92,504)**	(79,781)	**(22,437)**	(23,814)
Net assets	**537,040**	475,656	**324,817**	279,166
Carrying amount of NCI	**263,150**	233,071	**159,160**	136,791
Revenue	**209,130**	150,536	**232,918**	233,029
Profit for the year	**61,172**	60,279	**42,564**	37,086
Total comprehensive income	**70,766**	70,558	**44,091**	44,573
Profit allocated to NCI	**29,974**	29,537	**20,856**	18,172
Dividend paid by the subsidiaries	**–**	–	**1,365**	35,580
Dividend paid to NCI	**–**	–	**669**	18,090
Cash flows generated from operating activities	**149,252**	196,681	**67,754**	2,020
Cash flows used in investing activities	**(118,093)**	(76,466)	**(76,942)**	(29,747)
Cash flows generated from/(used in) financing activities	**19,705**	(34,958)	**12,157**	(56,575)

* The subsidiaries have initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise additional right-of-use assets and lease liabilities of approximately HK$5,689,000 relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated.

24. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net assets	**7,116**	6,133

All the Company's associates are unlisted corporate entities whose quoted market price is not available. All of these associates are accounted for using the equity method in the consolidated financial statements.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Yu Jiang Hui Min Small-Sum Loan Company Limited* ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司	PRC	Contributed capital	–	10%	Money lending business *(note i)*	Domestic enterprise
Yingtan City Yuanda Construction Industry Co., Ltd* 鷹潭市遠大建築工業 有限公司	PRC	Contributed capital	–	25%	Construction business	Domestic enterprise
Ziyang Oasis Xinzhong Water Environmental Protection Technology Co., Ltd. 資陽市綠州新中水環保科技有限公司	PRC	Contributed capital	–	49%	Exploitation, generation and sale of renewable energy	Domestic enterprise

* The English names are for identification purpose only.

Notes:

(i) On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. During the years ended 31 December 2019 and 2018, the Group has the right to nominate two out of five of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group. Yu Jiang Hui Man enables the Group to have exposure in the money lending business through local expertise.

(ii) Jinan Hongquan enables the Group to have exposure in provision of water supply in Jinan, the PRC. On 6 December 2018, Blue Mountain Hong Kong Limited ("Blue Mountain"), a wholly-owned subsidiary of the Group, and Jinan Water Group Co. Ltd. (the "Purchaser"), entered into a sale and purchase agreement whereby Blue Mountain agreed to sell its shareholding in Jinan Hongquan. The disposal was completed on 24 January 2019.

24. INTERESTS IN ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material:

	2019 **HK$'000**	2018 *HK$'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**7,116**	6,133
Aggregate amounts of the Group's share of those associates		
Profit for the year	**2,181**	2,689
Other comprehensive loss	**(704)**	(4,955)
Total comprehensive loss	**1,477**	(2,266)

25. INTERESTS IN JOINT VENTURES

	2019 **HK$'000**	2018 *HK$'000*
Share of net assets	**14,588**	11,721

All the Company's joint venture is unlisted corporate entities whose quoted market price is not available. All of these associates are accounted for using the equity method in the consolidated financial statements.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities	Legal form
Yichun Mingyue Mountain Fangke Sewage Treatment Co. Ltd 宜春市明月山方科污水處理有限公司	PRC	Contributed capital	–	65%	Sewage treatment services	Domestic enterprise
Jiangxi Yuehe Property Co., Ltd. 江西越和置業有限公司	PRC	Contributed capital	–	40%	Property development	Domestic enterprise

25. INTERESTS IN JOINT VENTURES *(Continued)*

Aggregate information of joint ventures that are not individually material:

	2019	2018
	HK$'000	*HK$'000*
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**14,588**	11,721
Aggregate amounts of the Group's share of the joint ventures		
Loss for the year	**(2,717)**	(124)
Other comprehensive loss	**(375)**	(479)
Total comprehensive loss	**(3,092)**	(603)

26. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Properties held for sale	**101,393**	102,619
Properties under development	**485,268**	42,807
Raw materials	**49,578**	40,321
Work in progress	**–**	1,821
	636,239	187,568

The analysis of the amount of inventories recognised as an expense is as follows:

	2019	2018
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**191,741**	160,717

27. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 HK$'000	2018 HK$'000
Contract assets		
Arising from performance under construction contracts	**52,240**	15,490

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits as part of its credit risk management policies. The Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

(b) Contract liabilities

	2019 HK$'000	2018 HK$'000
Contract liabilities		
Construction contracts		
Billings in advance of performance	**283,428**	275,741
Property developments		
Forward sales deposits and instalments received	**668,303**	13,105
Water supply services		
Deposits received	**–**	20,525
	951,731	309,371

27. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

(b) Contract liabilities *(Continued)*

The revenue recognised during the year that was included in the contract liabilities balance of the beginning of the period amounted to approximately HK$128,535,000 (2018: HK$103,870,000)

Typical payment terms which impact on the amount of contract liabilities recognised are as follows

– *Construction contracts*

When the Group receives a deposit before the construction work commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

– *Sales of properties*

The Group typically receives deposits from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the consideration is typically paid when legal assignment is completed.

– *Water supply services*

The Group typically receives deposits from clients in respect of the Group's water supply operation. This deposit is recognised as a contract liability until it is utilised.

28. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**474,394**	189,870
Less: Loss allowances	**(4,764)**	(3,651)
	469,630	186,219
Other receivables	**122,557**	116,643
Less: Loss allowances	**(10,862)**	(7,886)
	111,695	108,757
Loan receivables *(note a)*	**243,395**	133,424
Less: Loss allowances	**(63,262)**	(56,279)
	180,133	77,145
Deposits and prepayments *(note b)*	**427,556**	256,000
	1,189,014	628,121
Amounts due within one year included under current assets	**1,130,014**	625,844
Amounts due after one year included under non-current assets	**59,000**	2,277
	1,189,014	628,121

a) Apart from the loans to Top Vision of HK$43.6 million and other borrowers of HK$11.2 million which were fully impaired, included in loan receivables as at 31 December 2019 were loan to fourteen (2018: four) unrelated parties of HK$180.13 million (2018: HK$78.62 million), which bear fixed interest rate ranging from 4% to 24% per annum. These parties have no recent history of default.

b) Deposits and prepayments were mainly prepayments and deposits paid to independent third parties for construction projects.

28. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables

The Group allows an average credit period of 0 day to 180 days to its customers. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 6.

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

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**132,932**	143,374
91 to 180 days	**195,387**	23,181
181 to 365 days	**51,238**	11,166
Over 1 year	**90,073**	8,498
	469,630	186,219

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2019	2018
	HK$'000	*HK$'000*
Neither past due nor impaired	**229,660**	155,710
Past due but not impaired		
Within 90 days	**45,898**	20,829
91 to 180 days	**36,527**	5,453
181 to 365 days	**143,424**	3,137
Over 1 year	**14,121**	1,090
	469,630	186,219

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

28. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 3(o)).

29. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASH FLOW INFORMATION

a) Cash held by financial institutions by the Group represents amounts deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2018: 0% to 0.001%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

	2019	2018
	HK$'000	*HK$'000*
Cash held by financial institutions	**6,792**	2,371
Cash at bank and on hand	**404,593**	403,045
Overdraft held at financial institutions	**(20,479)**	(55,550)
Cash and cash equivalents in the consolidated cash flow statement	**390,906**	349,866

The overdrafts are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the financial institutions should be entitled, without notice to the Group, to close the account and/or dispose of any or all securities held for or on behalf of the Group to settle all outstanding amounts owing to financial institutions (note 22). Total amount of approximately HK$49,465,000 (2018: HK$138,598,000) was held by the financial institutions.

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

29. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASH FLOW INFORMATION *(Continued)*

b) Reconciliation of liabilities arising from financing activities

	Bank borrowings	Other loan	Obligation under finance lease	Lease liabilities	Amount due from/ (to) NCI	Amount due to associates	Loan from associate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	167,100	442,276	102,264	–	132	3,148	–	714,920
Changes from financing cash flows:								
Proceeds from new bank borrowings and other loans	9,488	179,543	–	–	–	–	–	189,031
Repayment of bank borrowings and other loans	(147,130)	(245,000)	–	–	–	–	–	(392,130)
Loans from third parties	–	200,546	–	–	–	–	–	200,546
Repayment of loans from third parties	–	(1,898)	–	–	–	–	–	(1,898)
Advances from non-controlling shareholders	–	–	–	–	569	–	–	569
Proceeds from obligations of finance leases	–	–	189,858	–	–	–	–	189,858
Repayment of finance lease repaid	–	–	(73,695)	–	–	–	–	(73,695)
Advance from associates	–	–	–	–	–	–	2,156	2,156
Interest paid	(6,230)	(30,742)	(9,836)	–	–	–	–	(46,808)
Total changes from financing cash flows	(143,872)	102,449	106,327	–	569	–	2,156	67,629
Exchange adjustments	(8,039)	(4,405)	(9,958)	–	(6)	(163)	(86)	(22,657)
Other changes:								
Finance charges on obligation under finance leases	–	–	10,034	–	–	–	–	10,034
Interest expenses	6,230	44,724	–	–	–	–	–	50,954
Reclassified as liabilities held for sale	–	–	–	–	–	(2,985)	–	(2,985)
Acquisition through business combination	29,731	–	–	–	–	–	–	29,731
Acquisition through assets acquisition	62,127	–	–	–	–	–	–	62,127
Total other changes	98,088	44,724	10,034	–	–	(2,985)	–	149,861
At 31 December 2018	**113,277**	**585,044**	**208,667**	**–**	**695**	**–**	**2,070**	**909,753**

29. CASH HELD BY FINANCIAL INSTITUTIONS AND BANK BALANCES AND CASH AND OTHER CASH FLOW INFORMATION *(Continued)*

b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank borrowings	Other loan	Obligation under finance lease	Lease liabilities	Amount due from/ (to) NCI	Loan from associate	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018	**113,277**	**585,044**	**208,667**	**–**	**695**	**2,070**	**909,753**
Impact on initial application of HKFRS 16*	–	–	(208,667)	208,667	–	–	–
At 1 January 2019	**113,277**	**585,044**	**–**	**208,667**	**695**	**2,070**	**909,753**
Changes from financing cash flows:							
Proceeds from new bank borrowings and other loans	325,809	80,564	–	–	–	–	406,373
Repayment of bank borrowings and other loans	(312,343)	(20,100)	–	–	–	–	(332,443)
Loans from third parties	–	91,842	–	–	–	–	91,842
Repayment of loans from third parties	–	(13,670)	–	–	–	–	(13,670)
Advances from non- controlling shareholders	–	–	–	–	16,738	–	16,738
Capital element of lease rentals paid	–	–	–	(138,242)	–	–	(138,242)
Interest element of lease rentals paid	–	–	–	(21,413)	–	–	(21,413)
Repayment to associates	–	–	–	–	–	(2,070)	(2,070)
Interest paid	(7,508)	(40,255)	–	–	–	–	(47,763)
Total changes from financing cash flows	5,958	98,381	–	(159,655)	16,738	(2,070)	(40,648)
Exchange adjustments	(2,461)	(5,356)	–	4,685	–	–	(3,132)
Other changes:							
Finance charges on leases liabilities	–	–	–	21,413	–	–	21,413
Interest expenses	7,508	61,489	–	–	–	–	68,997
Total other changes	7,508	61,489	–	21,413	–	–	90,410
At 31 December 2019	**124,282**	**739,558**	**–**	**70,425**	**17,433**	**–**	**951,698**

* 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. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

30. ASSETS/(LIABILITIES) CLASSIFIED AS HELD FOR SALE

(a) On 29 June 2018, New China Water (Nanjing), Renewable Resources Investment Company Limited ("New China Water (Nanjing)), a wholly-owned subsidiary of the Group and 南京屹信航天科技有限公司 (the "Purchaser"), entered into a sale and purchase agreement whereby New China Water (Nanjing) agreed to sell its 100% equity interest in New China Water (Nanjing) Carbon Company Limited at a consideration of HK$81.3 million (equivalent to RMB72.86 million). At 31 December 2019, the Group had received HK$31.3 million (equivalent to RMB28 million) as a deposit, representing 38% of total consideration. The disposal is expected to complete in year 2020.

(b) On 8 June 2018, Billion City Investments Limited ("Billion City"), a wholly-owned subsidiary of the Group, and Guangdong Water Group (H.K.) Limited ("Guangdong Water") (the "Purchaser"), entered into a sale and purchase agreement, whereby Billion City agreed to sell its 30% shareholding in Super Sino Investment Limited.

Completion of the transaction could not take place during the year ended 31 December 2018 as certain conditions precedent have not been fulfilled and the Purchaser has requested for an extension of time for completion. Since the Group remains committed to dispose of the assets, the assets continue to be classified as held for sale as at 31 December 2018.

At 31 December 2018, the Group had received HK$46.11 million (equivalent to RMB40.50 million as a deposit, representing 50% of the total consideration and the remaining balance was fully settled in 2019. The disposal was completed on 30 August 2019. Net gain on disposal of approximately HK$69,094,000 has been recognised in the consolidated statement of profit or loss.

(c) On 6 December 2018, Blue Mountain Hong Kong Group Limited ("Blue Mountain"), a wholly-owned subsidiary of the Group, and Jinan Water Group Co., Ltd. (the "Purchaser"), entered into a sale and purchase agreement whereby Blue Mountain agreed to sell its 35% equity interest in Jinan Hongquan at a consideration of HK$80.0 million (equivalent to RMB70.77 million). At 31 December 2018, the Group had received HK$40.24 million (equivalent to RMB35.38 million) as a deposit, representing 50% of total consideration and the remaining balance was fully settled in 2019. The disposal was completed on 24 January 2019. Net gain on disposal of approximately HK$41,753,000 has been recognised in the consolidated statement of profit or loss.

The assets attributable to a subsidiary expected to be sold within twelve months from the end of the reporting period were classified as assets held to sale as at 31 December 2019. The carrying amount of the assets as at 31 December 2019, which has been presented separately in the consolidated statement of financial position, is as follows:

	2019	2018
	HK$	*HK$'000*
Interests in associates – assets held for sale	**27,178**	51,597
Interests in associates – liabilities held for sale	**–**	(2,985)
	27,178	48,612

31. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**186,109**	101,222
Property sales received in advance	**1,207**	–
Construction payables	**129,112**	69,001
Interest payables	**14,312**	14,016
Accrued expenses	**62,484**	27,004
Guarantee deposits from a subcontractor	**19,006**	2,276
Sewage treatment fees received on behalf of certain government authorities	**4,936**	1,231
Other payables	**167,881**	82,615
	585,047	297,365
Amounts due within one year included under current liabilities	**571,950**	285,374
Amounts due after one year included under non-current liabilities	**13,097**	11,991
	585,047	297,365

The ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	**32,780**	22,728
31 to 90 days	**72,565**	39,988
91 to 180 days	**21,570**	16,727
181 to 365 days	**24,014**	10,985
Over 1 year	**35,180**	10,794
	186,109	101,222

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

32. BANK BORROWINGS

At 31 December 2019, the bank borrowings were repayable as follows:

	2019 HK$'000	2018 HK$'000
Within one year or on demand	**45,242**	55,362
More than one year but within two years	**16,059**	35,856
More than two years but within five years	**44,362**	17,505
Over than five years	**18,619**	4,554
	124,282	113,277
Less: Amount due within one year included under current liabilities	**(45,242)**	(55,362)
Amount due after one year included under non-current liabilities	**79,040**	57,915
Secured	**118,700**	113,277
Unsecured	**5,852**	–
	124,282	113,277

The exposure of the Group's loans is as follows:

	2019 HK$'000	2018 HK$'000
Fixed-rate loans	**41,564**	113,277
Variable-rate loans	**82,718**	–
	124,282	113,277

The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

32. BANK BORROWINGS *(Continued)*

At 31 December 2019, the Group has access to the following undrawn bank borrowing facilities:

All of the bank loans, including amounts repayable on demand, are carried at amortised cost.

Of the total bank borrowings as at 31 December 2018 and 2019, approximately HK$118,700,000 (equivalent to RMB106,334,000) (2018: HK$31,144,000 (equivalent to RMB27,354,000)) was secured by the Group's property, plant and equipment and right-of-use assets with total carrying amount of approximately HK$115,075,000 (2018: HK$34,134,000) and HK$24,814,000 (2018: HK$Nil) respectively.

Notes:

(i) Bank borrowings of approximately RMB2,400,000 (equivalent to HK$2,679,000) (2018: RMB8,000,000 (equivalent to HK$9,108,000)) is secured by a contractual right to receive the revenue generated by Jining Haiyuen, a non-wholly owned subsidiary of the Company, and carries fixed interest rate at 5.65% (2018: 4.568%) per annum.

(ii) Bank borrowings of approximately RMB21,000,000 (equivalent to HK$23,442,000) (2018: RMB23,000,000 (equivalent to HK$27,186,000)) is secured by corporate guarantees from the New China Water (Shenzhen), a wholly owned subsidiary of the Company, and non-controlling shareholders of a subsidiary, personal guarantees from management of a subsidiary, property and equipment with total carrying amount of approximately HK$23,072,000 (2018: HK$26,767,000) and a contractual right to receive revenue generated by Dongyang Grand and carried fixed interest rate at 6.37% (2018: 6.37%) per annum.

(iii) On 12 December 2017, Gaoming Huaxin, a non-wholly owned subsidiary of the Company entered into an agreement with the bank to extend the bank borrowings of RMB9,900,000 (equivalent to HK$11,887,000) for three years. At 31 December 2019, bank borrowings of approximately RMB3,900,000 (equivalent to HK$4,354,000) (2018: RMB7,200,000 (equivalent to HK$8,197,000)) is secured by a contractual right to receive the revenue generated by Gaoming Huaxin and carried interest rate at 7.13% (2018: 7.13%) per annum.

(iv) Bank borrowings of approximately RMB2,885,000 (equivalent to HK$3,220,000) (2018: RMB4,354,000 (equivalent to HK$4,958,000)) is secured by a corporate guarantee from the New China Water (Nanjing), a wholly owned subsidiary of the Company, a personal guarantee from management of a subsidiary and property, plant and equipment with total carrying amount of HK$7,714,000 (2018: HK$7,867,000) and carried fixed interest rate at 7.5% (2018: 7.5%) per annum.

32. BANK BORROWINGS *(Continued)*

Notes: (Continued)

(v) Bank borrowings of approximately RMB23,049,000 (equivalent to HK$25,730,000) (2018: RMB26,122,000 (equivalent to HK$29,740,000)) is secured by an wholly owned subsidiary of the Company's equity interest in Hainan Camda and Chongqing Camda. It carries fixed interest rate at 4.75% (2018: 4.75%) per annum.

(vi) At 31 December 2019, bank borrowings of approximately RMB8,100,000 (equivalent to HK$9,042,000) is secured by a corporate guarantee from the Hainan Sanya New China Water environment Technology Limited, a wholly owned subsidiary of the Company, of the property, plant and equipment with total carrying amount of approximately HK$7,813,000 and carried variable interest rate at 4.75% per annum.

(vii) At 31 December 2019, bank borrowings of approximately RMB45,000,000 (equivalent to HK$50,234,000) is secured by a corporate guarantee from the Huizhou Swan Heng Chang Property Development Company Limited, a wholly owned subsidiary of the Company, of the property, plant and equipment and right-of-use assets with total carrying amount of approximately HK$76,476,000 and HK$24,814,000 respectively and wholly owned subsidiary of the Company equity interest in Swan (Huizhou) Investment Company Limited. It carries fixed interest rate at 7.84% per annum.

(viii) At 31 December 2018, bank borrowings of approximately RMB2,000,000 (equivalent to HK$2,277,000)) and RMB28,820,000 (equivalent to HK$32,812,000)) and carried fixed interest rate at 5.7% and 4.32% per annum respectively were fully repaid during the year.

These borrowings are secured by an wholly owned subsidiary of the Company's equity interest in Chenzhou Environmental, Heng Yang Environmental, Chengdu City Green State and Baoji.

33. OTHER LOANS

	2019	2018
	HK$'000	*HK$'000*
Other loans comprise of:		
Government loans *(note i)*	**88,673**	80,217
Loans from unrelated parties *(note ii)*	**274,033**	200,918
Fixed coupon bonds *(note iii)*	**376,852**	303,909
	739,558	585,044
Analysed as:		
Secured	**–**	–
Unsecured	**739,558**	585,044
	739,558	585,044

33. OTHER LOANS *(Continued)*

At 31 December 2019, the other loans were repayable as follows:

	2019 HK$'000	2018 HK$'000
Overdue	**42,527**	6,831
On demand or within one year	**124,502**	33,488
More than one year but within two years	**217,539**	116,938
More than two years but within five years	**227,653**	151,738
More than five years	**127,337**	276,049
	739,558	585,044
Less: Amount due within one year included under current liabilities	**(167,029)**	(40,319)
Amount due after one year shown included non-current liabilities	**572,529**	544,725

Notes:

i) At 31 December 2019, government loans of approximately HK$7,713,000 (2018: HK$7,866,000), HK$10,047,000 (2018: HK$10,247,000) and HK$70,913,000 (2018: HK$62,104,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carried interest ranging from 5% to 5.2% (2018: 4.4% to 5.0%) per annum and the floating-rate borrowings carried interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum (2018: 0.3% per annum).

At 31 December 2019, government loans of approximately HK$7,814,000 was due for repayment on or before 31 December 2019 (2018: HK$6,831,000 which was due for repayment on or before 31 December 2018), approximately HK$2,181,000 (2018: HK$3,363,000) are repayable on demand or within one year to five years (2018: one year to seven years), and the remaining balances are repayable within eleven years (2018: twelve years) after completion of the relevant assets.

ii) (a) At 31 December 2019, loan from unrelated individual of approximately HK$8,995,000 are fixed-rate borrowings carried interest at 12% per annum and due for repayment on or before 17 December 2020.

(b) At 31 December 2019, the subsidiary of the Group, Jining City Haisheng Water Treatment Company Limited and 揚州上善建設有限公司 entered into a loan agreement approximately HK$33,900,000 (equivalent to RMB29,800,000) are fixed rate borrowing carried interest at 24% per annum regard to the construction project in Jining City. This loan will mature in three year from the date of the completion of construction project.

iii) (a) Bonds I

On 25 October 2017, the Company entered into the placing agreement with the placing agent, for the purposed of arranging independent places to subscribe for the bonds up to an aggregate principal amount of HK$100,000,000 within the placing period. The Company had completed the issuance of the bonds on 13 December 2017. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

33. OTHER LOANS *(Continued)*

Notes: (Continued)

(b) Bonds II

On 4 December 2017, the Company entered into the placing agreement with the placing agent, for the purposed of arranging independent places to subscribe for the bonds in an aggregate principal amount of not less than HK$100,000,000 within the placing periods, which ended on 31 May 2018. After signed several extension agreements with the recreant parties on 31 May 2018 and 30 November 2018, the expiry date of the placing was further extended to 30 May 2019. Bond II with the aggregate principal amount of HK$36,000,000 (2018: HK$172,100,000) were issued during the year. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

The placing of Bonds II has been completed on 30 May 2019.

(c) Bond III

On 11 January 2018, the Company entered into the placing agreement with placing agent, for the purposed of arranging independent places to subscribe for the bonds up to aggregate principal amount of HK$100,000,000 within the placing period. Bond III with the aggregate principal amount of HK$6,000,000 (2018: HK$14,000,000) were issued during the year. The bonds will mature in 3 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

Subsequent to the year ended 31 December 2018, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days.

The placing of Bond III has been completed on 10 January 2020.

(d) Bond IV

On 18 January 2018, the Company entered into the placing agreement with placing agent, for the purposed of arranging independent places to subscribe for the bonds up to aggregate principal amount of HK$100,000,000 within the placing period. Bond IV with the aggregate principal amount of HK$20,000,000 were issued during the year ended 31 December 2018. The bonds will mature in 7.5 years from the date of issuance. The interest rate is 6% per annum, and payable semi-annually in arrears.

Subsequent to the year ended 31 December 2018, the Company entered into the supplemental agreement with the placing agent to extend the placing period from 365 days to 730 days.

The placing of Bond IV has been completed on 17 January 2020.

33. OTHER LOANS *(Continued)*

Notes: (Continued)

(e) Bond V

On 24 August 2018, the Company entered into the placing agreement with placing agent, for the purposed of arranging independent places to subscribe for the bonds in aggregate principal amount of not less than HK$100,000,000 within the placing period. Bond V with the aggregate principal amount of HK$13,100,000 (2018: HK$20,100,000) were issued during the year. The bonds will mature in 1 year from the date of issuance. The interest rate is 5% per annum, and payable annually in arrears.

The placing of Bond V has been completed on 30 August 2019.

(f) Bond VI

On 15 January 2019, the Company entered into the placing agreement with the placing agent pursuant to which the placing agent on a best effort basis, to arrange independent Placees to subscribe for 5% per annum for Bonds (A) and 5.5% per annum for Bonds (B) with a term of one year and two year respectively, up to an aggregate principal amount of HK$200 million.

The placing of Bond VI has been completed on 14 January 2020.

(g) On 14 June 2016, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$300 million, were issued on 14 June 2016 and 7 December 2016, respectively. These other loans will mature in one year from the date of issuance.

Series A Bond and Series B Bond have matured and fully settled in 2017 and 2018 respectively.

(h) On 5 September 2017, the Company and Prosper Talent Limited entered into a Subscription Agreement in respect of the issuance of other loans with an aggregate principal amount of not more than HK$300 million at a fixed coupon interest of 10% per annum payable semi-annually in advance, comprising of the Series A Bond, and Series B Bond. Series A Bond and Series B Bond with an aggregate amount of HK$200 million, were issued on 5 September 2017 and 19 September 2017, respectively. These other loans will mature in one year from the date of issuance.

Series A Bond and Series B Bond and matured and fully settled in 2018.

(i) Other bonds

Except for the issuance of bonds through the placing agents as above, the Company has also issued other bonds to subscribers in an aggregate principal amount of HK$45 million at a fixed coupon rate in range of 5% to 6% with a term ranging from 2 to 3 years. As at 31 December 2019, the outstanding other bonds amounted to HK$35.98 million and was classified as an other loan (31 December 2018: Nil).

34. LEASE LIABILITIES

	31 December 2019		31 December 2018 (Note)	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**122,624**	**138,195**	91,500	103,761
After 1 year but within 2 years	**84,149**	**94,617**	70,814	77,269
After 2 years but within 5 years	**64,885**	**69,653**	45,852	49,734
After 5 years	**685**	**737**	501	518
	149,719	**165,007**	117,167	127,521
	272,343	**303,202**	208,667	231,282
Less: total future interest expenses		**(30,859)**		(22,615)
Present value of lease obligations		**272,343**		208,667

Note:

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. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 2.

At 31 December 2018 and 2019, the Group entered into financing arrangements for purchase machineries with independent third-party leasing companies, in the form of sale and leaseback transactions which result in finance leases and the Group bears repurchase options. As the repurchase prices are set at RMB100 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods and the Group is certain that it will exercise the repurchase options, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralised borrowings at amortised cost using effective interest method in accordance with the accounting policy set out in note 3(ad).

The finance lease of approximately HK$272.34 million (equivalent to RMB243.97 million) (2018: HK$180.08 million (equivalent to RMB158.17 million)) is secured by a contractual right to receive the revenue generated by certain subsidiaries of the Company.

35. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

36. CAPITAL AND RESERVES

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

	Share Capital *HK$'000*	Share premium *HK$'000*	Investment revaluation reserve *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2018	798,270	954,318	405	–	(696,468)	1,056,525
Impact on initial application of HKFRS 9	–	–	(405)	405	–	–
Adjusted balance at 1 January 2018	**798,270**	**954,318**	**–**	**405**	**(696,468)**	**1,056,525**
Changes in equity for 2018:						
Loss for the year	**–**	**–**	**–**	**–**	**(103,465)**	**(103,465)**
Fair value loss on financial asset through other comprehensive income	**–**	**–**	**–**	**(10,508)**	**–**	**(10,508)**
Total comprehensive income for the year	**–**	**–**	**–**	**(10,508)**	**(103,465)**	**(113,973)**
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	–	–	–	(907)	907	–
At 31 December 2018	798,270	954,318	–	(11,010)	(799,026)	942,552
At 1 January 2019	**798,270**	**954,318**	**–**	**(11,010)**	**(799,026)**	**942,552**
Changes in equity for 2019:						
Loss for the year	**–**	**–**	**–**	**–**	**(133,671)**	**(133,671)**
Fair value loss on financial asset through other comprehensive income	**–**	**–**	**–**	**(21,761)**	**–**	**(21,761)**
Total comprehensive income for the year	**–**	**–**	**–**	**(21,761)**	**(133,671)**	**(155,432)**
Transfer of fair value reserve upon the disposal of equity instruments at fair value through other comprehensive income	–	–	–	23,818	(23,818)	–
At 31 December 2019	**798,270**	**954,318**	**–**	**(8,953)**	**(956,515)**	**787,120**

36. CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2019		2018	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 each				
At 1 January and 31 December *(note i)*	**4,000,000**	**2,000,000**	4,000,000	2,000,000
Convertible preference shares of HK$0.10 each				
At 1 January and 31 December *(note ii)*	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each				
At 1 January	**1,596,540**	**798,270**	1,596,540	798,270
At 31 December	**1,596,540**	**798,270**	1,596,540	798,270

Notes:

(i) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Convertible preference shares do not carry the right to vote and not be entitled to any dividend payment or any distribution of the Company. No right for return of capital in liquidation is available for distribution among the holders of Convertible Preference Shares.

36. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(ab).

(iii) Reserve fund

Reserve fund arises from (i) pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital of each relevant PRC subsidiary. Transfers to this reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital; and (ii) premium paid for capital injection in relation to the additional of equity interest of a subsidiary.

(iv) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of investments held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 3(n).

(v) Revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in (note 3(i)).

36. CAPITAL AND RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(vi) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity instruments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 3(n)).

37. GOVERNMENT GRANTS

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**30,721**	34,803
Additions	**8,126**	5,525
Recognised as other income for the year	**(10,040)**	(7,900)
Exchange realignment	**(564)**	(1,707)
At 31 December, classified as non-current liabilities	**28,243**	30,721

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as non-current liabilities and amortised over the useful lives of the relevant water pipeline network and water plant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred government grants of approximately HK$10,040,000 (2018: HK$7,900,000) was amortised and recognised in the consolidated statement of profit or loss.

38. DEFERRED TAX (ASSETS)/LIABILITIES

The following are the major deferred tax (assets)/liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits	Service concession arrangements	Exclusive rights	Revaluation on investment property/ resumption property	Property, plant and equipment transfer to Investment properties	Government grants	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	13,214	10,527	40,554	4,146	1,725	(300)	69,866
Charged/(credited) to profit or loss for the year	–	(583)	(4,216)	1,767	–	–	(3,032)
Arising from acquisition of a subsidiary *(note 39)*	–	–	3,286	–	–	–	3,286
Arising from revaluation on investment properties	–	–	–	–	2,779	–	2,779
Exchange realignment	–	261	(1,852)	(116)	(361)	–	(2,068)
At 31 December 2018 and 1 January 2019	**13,214**	**10,205**	**37,772**	**5,797**	**4,143**	**(300)**	**70,831**
Charged/(credited) to profit or loss for the year	**–**	**(248)**	**4,969**	**956**	**–**	**–**	**5,677**
Arising from acquisition of a subsidiary *(note 39)*	**–**	**–**	**3,404**	**–**	**–**	**–**	**3,404**
Arising from revaluation on investment properties	**–**	**–**	**–**	**–**	**3,383**	**–**	**3,383**
Exchange realignment	**–**	**100**	**(543)**	**(67)**	**(204)**	**–**	**(714)**
At 31 December 2019	**13,214**	**10,057**	**45,602**	**6,686**	**7,322**	**(300)**	**82,581**

38. DEFERRED TAX (ASSETS)/LIABILITIES *(Continued)*

Reconciliation to the consolidated statements of financial position

	2019	2018
	HK$'000	*HK$'000*
Deferred tax assets	**(8,574)**	(9,173)
Deferred tax liabilities	**91,155**	80,004
	82,581	70,831

At 31 December 2019, the Group had unused tax losses of HK$178,752,000 (2018: HK$140,255,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. At 31 December 2019, no tax losses can be carried forward indefinitely and tax losses of approximately HK$178,752,000 (2018: HK$140,255,000) will expire in five years' time.

At 31 December 2019, the Group also has other deductible temporary differences of approximately HK$17,336,000 (2018: HK$33,146,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$388,588,000 (2018: HK$297,344,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong.

39. ACQUISITION OF SUBSIDIARIES

(a) Business combination

The net assets acquired in the transaction and the goodwill arising are as follows:

2019

	(i) Guangxi Ruirong *HK$'000*
Intangible assets	**13,616**
Trade and other payables	**(60)**
Deferred tax liabilities	**(3,404)**
Total identified net assets at fair value	**10,152**
Goodwill arising on acquisition of subsidiaries *(note 21)*	**718**
Total consideration	**10,870**
Consideration paid in cash for the year ended 31 December 2019	**10,870**
Cash and cash equivalent balances acquired	**–**
Net cash outflow in the year ended 31 December 2019	**10,870**

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

2018

	(ii) Dongyang Grand *HK$'000*
Property, plant and equipment	32,602
Intangible assets	10,332
Inventories	293
Trade and other receivables	15,361
Bank balances and cash	30,608
Trade and other payables	(30,530)
Bank borrowings	(29,731)
Deferred tax liabilities	(3,286)
Total identified net assets at fair value	25,649
Goodwill arising on acquisition of subsidiaries *(note 21)*	5,942
Non-controlling interests	(3,159)
Total consideration	28,432
Consideration paid in cash for the year ended 31 December 2018	28,432
Cash and cash equivalent balances acquired	(30,608)
Net cash inflow in the year ended 31 December 2018	(2,176)

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(i) Guangxi Ruirong

On 12 September 2018, Shenzhen City New China Water Environmental Technology Limited entered into the share transfer agreement with Zhejiang Zhongrui Low Carbon Technology Co., Ltd ("Zhejiang Zhongrui") (浙江中會低碳科技有限公司) to acquire 100% equity interests of the Guangxi Ruirong Energy Technology Co., Ltd. ("Guangxi Ruirong") (廣西睿榮能源科技有限公司) at a consideration of RMB9.5 million (equivalent to approximately HK$10.87 million). The acquisition was completed on 10 January 2019, on the date the control in Guangxi Ruirong was passed to the Group. Guangxi Ruirong is principally engages in the business of environmental protection in the PRC, for an operation period of 10 years until 2028.

	HK$'000
Total consideration paid	3,430
Consideration payable	7,440
	10,870

The goodwill is attributable to Guangxi Ruirong's strong position in the biogas power generation business in the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

From the date of acquisition to 31 December 2019, Guangxi Ruirong contributed loss of approximately HK$447,000 to the loss of the Group for the year ended 31 December 2019. No revenue was generated by Guangxi Ruirong for the year.

Had the business combination been effected on 1 January 2019, the profit of the Group for the year ended 31 December 2019 would have been approximately HK$178,238,000. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Net cash outflow arising on acquisition

	HK$'000
Consideration paid	(10,870)
Bank balances and cash acquired	–
	(10,870)

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(ii) Dongyang Grand

On 22 November 2017, Shenzhen City New China Water Environmental Technology Limited entered into a sale and purchase agreement with an independent third party to acquire 90% equity interests of the Dongyang Grand Energy Co., Ltd.* ("Dongyang Grand") (東陽弘翔新能源有限公司) for a consideration of RMB22.95 million (equivalent to approximately HK$28.43 million). The acquisition was completed on 16 March 2018, on the date the control in Dongyang Grand was passed to the Group, since then, the Group is interested in 90% equity interests of Dongyang Grand. Dongyang Grand is principally engaged in the operation of landfill gas power generation plant in Dongyang city, Zhejiang Province, the PRC, for an operation period of 7 years until June 2025.

	HK$'000
Total consideration paid	28,432
Consideration payable	–
	28,432

The goodwill is attributable to Dongyang Grand's strong position in the biogas power generation business in Dongyang City, the PRC. These benefits were not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

The fair value of trade and other receivables at the date of acquisition of approximately HK$15,361,000 which were the same as the gross contractual amounts. None of the receivables have been impaired and it is expected the full contractual amounts can be collected.

From the date of acquisition to 31 December 2018, Dongyang Grand contributed revenue and profit of approximately HK$10,627,000 and HK$3,500,000, respectively, to the revenue and profit of the Group for the year ended 31 December 2018.

Had the business combination been effected on 1 January 2018, the revenue and profit of the Group for the year ended 31 December 2018 would have been approximately HK$951,687,000 and HK$65,404,000, respectively. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) Business combination *(Continued)*

(ii) Dongyang Grand (Continued)

Net cash inflow arising on acquisition

	HK$'000
Consideration paid	(28,432)
Bank balances and cash acquired	30,608
	2,176

(b) Asset acquisition

on 21 July 2018, Yingtan Water Supply Group Co., Ltd. entered into an agreement ("the Agreement") with an independent third party in Jiangxi Deyin Industries Limited ("Jiangxi Deyin"), at an aggregate consideration of approximately HK$62,127,000 satisfied by assumption of interest-bearing bank borrowings and a cash consideration of approximately HK$115,000. Jiangxi Deyin is engaged in property development by holding two parcels of land situated in China. As the Jiangxi Deyin had not carried out any significant business activities except for holding two parcels of land, the acquisition was accounted for by the Group as an asset acquisition in 2018.

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

	2018 *HK$'000*
Net assets and liabilities acquired:	
Prepaid lease payments	60,552
Other payables	(310)
	62,242
Interest-bearing bank borrowings	(62,127)
Cash consideration	(115)
	(62,242)

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Asset acquisition *(Continued)*

An analysis of the net cash outflow of cash and cash equivalents in respect of the asset acquisition is as follows:

	HK$'000
Net outflow of cash and cash equivalents included in cash flows from investing activities	(115)

40. CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019	2018
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of concession intangible assets, property, plant and equipment	**14,125**	337,929
– Investment in an associate	**–**	2,220
	14,125	340,149

41. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**6,482**	9,552
After one year but within five years	**1,082**	11,252
After five years	**759**	998
	8,323	21,802

41. OPERATING LEASES *(Continued)*

The Group as lessee *(Continued)*

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases 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). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3(ac), and the details regarding the Group's future lease payments are disclosed in note 34. From 1 January 2019, the Group has recognised right-of-use assets for the operating leases where the Group is a leasee, except for short-term and low-value leases. See note 16 for further information.

The Group as lessor

Property rental income earned during the year was approximately HK$4,596,000 (2018: HK$4,561,000) (note 9).

At 31 December 2019, the properties were expected to generate rental yields of 7% per annum (2018: 5% – 8% per annum) on an ongoing basis. The properties had committed tenants for eighteen years and none of the leases includes contingent rentals.

Minimum lease payments receivable on leases are as follows:

	2019
	HK$'000
Within one year	**6,101**
After one year but within five years	**18,074**
After five years	**9,857**
	34,032

The Group had contracted with lessees for the following future minimum lease payments:

	2018
	HK$'000
Within one year	2,914
After one year but within five years	11,522
After five years	11,796
	26,232

42. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the Group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

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

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

As at 31 December 2019 and 2018, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

43. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group and its employees each contribute 5% of relevant payroll costs to the scheme. Effective from 1 June 2014, the cap of monthly relevant income was $30,000.

The employees of the Group's subsidiaries in the PRC are required to participate in the Central Pension Scheme ("CPS") CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the CPS. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the CPS.

The total cost charged to the consolidated statement of profit or loss of approximately HK$19,228,000 (2018: HK$16,950,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 HK$'000	2018 HK$'000
Non-current assets			
Financial assets at fair value through other comprehensive income		**9,193**	54,583
Investment in subsidiaries		**2**	2
Deposits and prepayment		**59,000**	–
		68,195	54,585
Current assets			
Financial assets at fair value through profit or loss		**40,272**	84,015
Other receivables		**5,352**	1,924
Deposits and prepayment		**52,574**	77,611
Amounts due from subsidiaries		**1,250,424**	1,264,144
Cash held by financial institutions		**63**	63
Bank balances and cash		**3,164**	29,209
		1,351,849	1,456,966
Current liabilities			
Other payables		**9,848**	8,622
Other loans		**142,011**	30,125
Overdraft		**20,479**	55,550
		172,338	94,297
Net current assets		**1,179,511**	1,362,669
Total assets less current liabilities		**1,247,706**	1,417,254
Capital and reserves	*36*		
Share capital		**798,270**	798,270
Reserves		**(11,150)**	144,282
Total equity		**787,120**	942,552
Non-current liabilities			
Other loans		**460,586**	474,702
		1,247,706	1,417,254

Approved and authorised for issue by the board of directors on 24 April 2020:

Lin Yue Hui
Director

Liu Feng
Director

45. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The emoluments paid or payable to each of the 11 (2018: 9) directors and chief executive were as follows:

		2019			
Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2019 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Liu Feng	–	1,422	1,330	18	2,770
Lin Yue Hui	–	1,732	1,488	18	3,238
Chu Yin Yin, Georgiana	–	1,422	2,250	18	3,690
Deng Xiao Ting	–	1,422	1,246	18	2,686
Zhong Wei Guang	–	1,382	826	18	2,226
Ho Chi Ho (Appointed on 1 May 2019)	–	290	–	11	301
Zho YongJun (Appointed on 5 August 2019)	–	141	–	4	145
	–	7,811	7,140	105	15,056
Independent Non-Executive Directors					
Guo Chao Tian	189	–	–	–	189
Wong Siu Keung, Joe	189	–	–	–	189
Qiu Na	189	–	–	–	189
Lam Cheung Shing Richard (Appointed on 5 August 2019)	73	–	–	–	73
	640	–	–	–	640
	640	7,811	7,140	105	15,696

45. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(Continued)*

2018

Name	Fees	Salaries, allowance and benefits in kind	Discretionary bonuses	Employer's contribution to a retirement benefit scheme	2019 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Liu Feng	–	1,217	1,526	18	2,761
Lin Yue Hui	–	1,318	1,772	18	3,108
Chu Yin Yin, Georgiana	–	1,170	1,525	18	2,713
Deng Xiao Ting	–	1,192	1,525	18	2,735
Deng Jun Jie (Resigned on 4 September 2018)	–	87	4,614	5	4,706
Zhong Wei Guang (Appointed on 4 September 2018)	–	200	195	3	398
	–	5,184	11,157	80	16,421
Independent Non-Executive Directors					
Guo Chao Tian	156	–	–	–	156
Wong Siu Keung, Joe	156	–	–	–	156
Qiu Na	156	–	–	–	156
	468	–	–	–	468
	468	5,184	11,157	80	16,889

There was no arrangement under which directors and chief executive have waived or agreed to waive any emoluments during the two years ended 31 December 2019 and 2018.

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

46. LITIGATIONS AND ARBITRATION

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

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

46. LITIGATIONS AND ARBITRATION *(Continued)*

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

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

On 16 July 2015, the Zhaoqing Intermediate People's Court adjudged that the Final Judgment recognised and accepted to execute in Mainland China for the recovering the Outstanding Balance and the underlying interest from Top Vision ("PRC Judgment"). On 27 January 2016, the PRC Judgment was announced on the website of The People's Court Announcement for 60 days ("Announcement Period"). If Top Vision has not appealed for the PRC Judgment within 30 days after the Announcement Period, the PRC Judgment will be automatically effective thereafter, the Company can enforce the PRC Judgment. On 10 August 2016, Sihui City People's Court* (四會市人民法院) accepted to execute the PRC Judgment in Mainland China and requested Swift Surplus to provide the financial position statement relating to Top Vision. On 30 August 2016, Sihui City People's Court adjudged to freeze the entire equity interest held by Top Vision on Sihui Sewage for 3 years from 30 August 2016 to 29 August 2019. On 28 June 2019, Shui City People's Court accepted the "resumption implementation application" which was submitted by Swift Surplus to resume the execution of the final judgement and continued to freeze the entire equity interest on Sihui Sewage for another 3 years till July 2022.

In 2016, the Company instructed the legal counsel to institute arbitral proceedings against the Borrowers and the guarantees under the supplemental loan agreements and their respective guarantees by filing the notices of Arbitration to Hong Kong International Arbitration Centre ("HKIAC"). HKIAC has confirmed the filing of such notices and the institution of respective arbitral proceedings. On 29 March 2019, HKIAC has appointed a sole arbitrator for this arbitration proceedings.

46. LITIGATIONS AND ARBITRATION *(Continued)*

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

On 6 March 2018, Liquidators informed Creditors that Top Vision sold its entire shareholding in Top Vision Huizhou to Tai Heng Construction Holding Ltd. ("Tai Heng") without payment of purchase consideration of RMB1 million. The Liquidator obtained a judgement from the High Court under the action of HCA 2448/2017 on 7 January 2019 against Tai Heng in favour of Top Vision, under which Tai Heng should repay approximately HK$3.90 million being principal and interest, and the Court further awarded judgment interest at a rate of 8% p.a. from 23 October 2017 to 31 December 2018 and 8.08% p.a. from 1 January 2019 to the date of payment (the "Judgement Debts"). The Liquidator proposed a demand letter of the Judgement Debt to Tai Heng on 29 January 2019 but failed to receive any reply from Tai Heng. Therefore, the Liquidators are prepared to issue statutory demand against Tai Heng. If Tai Heng fail to reply, the Liquidators may further pursue winding-up application against Tai Heng. On 16 April 2019, the Company filed the witness statements and documentary evidence (collectively known as "Evidence") to the High Court. But the Borrowers failed to file and serve their respective Defence & Counterclaim as well as their Evidence. The Company applied to the Tribunal to arrange the arbitral hearing. Up to the date of this report, the arbitration proceeding is in the process and no substantial assets have yet been preserved or recovered. As at 31 December 2018 and 31 December 2019, the loan receivables from Top Vision of HK$43.60 million were fully impaired.

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

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

46. LITIGATIONS AND ARBITRATION *(Continued)*

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

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trial, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "Kunming Court") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "Repayment Plan") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the date of approval of these financial statements, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "Guarantors") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "Settlement Agreement"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. On 13 August 2019, Yunnan Chaoyue Gas and Guarantors failed to fulfil the Settlement Agreement, Kunming Court accepted the application relating to the resumption of civil enforcement which submitted by Guangzhou Hyde. Up to the date of this report, there was no significant progress on this legal proceeding. The Deposit was classified as loan receivable and fully impaired in 2011. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

* The English names are for identification purpose only.

47. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the balances detailed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

	2019 HK$'000	2018 HK$'000
Directors of the Company		
Deposits received	–	5,157

(b) **Compensation of key management personnel**

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 45, is as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**21,815**	21,931
Post-employment benefits	**174**	101
	21,989	22,302

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

48. EVENTS AFTER THE END OF THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Up to the date of issue of these financial statements, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

49. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

50. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

As mentioned under note 8, the Group identified property investment and development as a separate and reportable segment a result of the reassessment of the Group's operations and measurement of financial performance, certain comparative figures, including revenue, cost of sales, other operating income and expenses have been reclassified to conform to current year's presentation and to provide comparative amounts in respect of items disclosed.

中國水業集團有限公司
CHINA WATER INDUSTRY GROUP LIMITED