TECHNOLOGIES UNIVERSAL

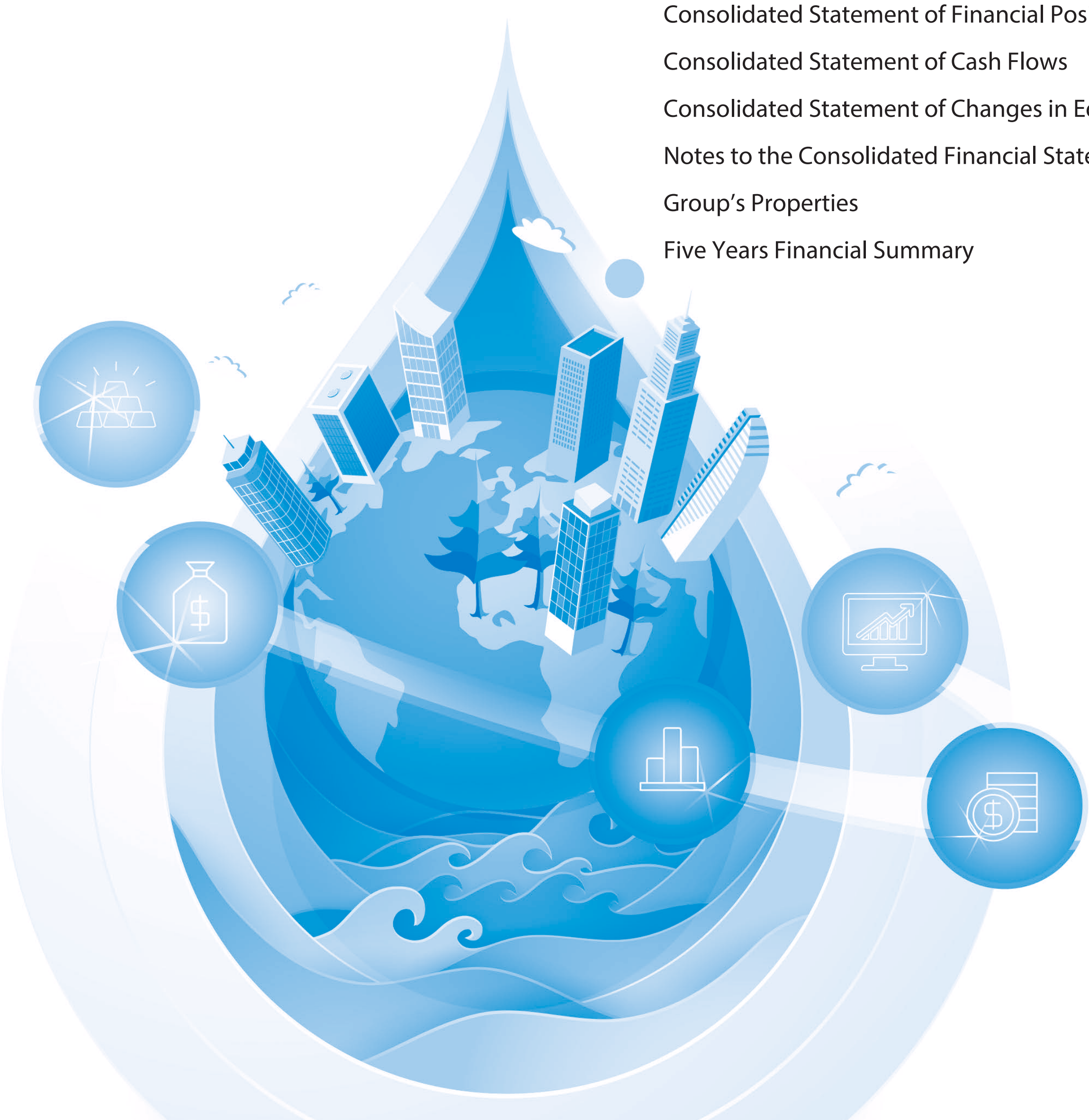
Universal Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1026

ANNUAL REPORT 2020

Contents



Highlights of the Year

- Revenue for the year ended 31 December 2020 amounted to HK$344.75 million (2019: HK$303.60 million), representing an increase of HK$41.15 million or 14% as compared to last year. Such increase was mainly due to (a) increase in revenue of the Group's water supply business; and (b) rental income from commercial properties in China being recognised for full year in 2020, as compared to recognition for only part of the year in 2019.

- Net loss attributable to shareholders of the Company for the year ended 31 December 2020 was HK$36.34 million (2019: HK$116.63 million), representing a decrease of HK$80.29 million as compared with the year ended 31 December 2019. The decrease in loss for the year of the Group was mainly due to: (a) the recognition of a non-recurring impairment loss of the goodwill of the Group's businesses of water supply services and financial services in 2019 while no similar impairment loss of goodwill was recognised by the Group in 2020; and (b) profit from commercial properties in China being recognised for full year in 2020, as compared to recognition for only part of the year in 2019.

- Basic and diluted loss per share for the year ended 31 December 2020 amounted to HK0.66 cent and HK0.66 cent, respectively (Basic and diluted loss per share for the year ended 31 December 2019: HK2.96 cents and HK2.96 cents, respectively).

- The Board of Directors does not recommend payment of any dividend for the year ended 31 December 2020 (2019: HK$Nil).

BOARD OF DIRECTORS

Executive Directors:

Chen Jinyang *(Chairman and Chief Executive Officer)*
Zhu Fenglian
Zhang Haimei

Non-Executive Director:

Xuan Zhensheng
Chau Cheuk Wah *(retired as Non-Executive Director at the AGM on 29 May 2020)*

Independent Non-Executive Directors:

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

COMPANY SECRETARY

Tang Chi Wai

AUDIT COMMITTEE

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

AUTHORISED REPRESENTATIVES

Chen Jinyang
Tang Chi Wai

AUDITOR

PKF Hong Kong Limited
Certified Public Accountants

LEGAL ADVISER

Lawrence Chan & Co.

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REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKER

CMB Wing Lung Bank
Dah Sing Bank

Chairman's Statement

On behalf of the board of directors (the "Board"), I present the annual report of Universal Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020.

REVIEW

In 2020, the Group's financial performance was improved. The Group recorded revenue of HK$344,748,000, representing an increase of approximately 14% as compared with the revenue of HK$303,598,000 in the previous year. Water supply and related business (including water quality inspection, water pipe repairs and maintenance, water meter maintenance and replacement and other related services) recorded a revenue of approximately HK$305,907,000, representing an increase of 5% or approximately HK$15,446,000 as compared with the revenue of approximately HK$290,461,000 last year, which was primarily attributable to the increased demand in tap water supply due to urban development. The increase in revenue was primarily due to the full-year recognition of the rental income from commercial properties in China in 2020, as compared to the non-full year recognition in 2019 since the properties were only acquired in the second half of 2019. The Group recorded net loss attributable to shareholders of the Company of HK$36,337,000, representing a decrease of 69% as compared to the net loss attributable to shareholders of the Company of HK$116,634,000 in the previous year. The decrease in the loss was mainly attributed to: (a) the non-recurrence of impairment loss for goodwill of the Group's water supply services and financial services, as no similar impairment loss for goodwill of the Group was recognised in 2020; and (b) profit from commercial properties acquired in China was recorded in the second half of last year, while it was recognised as profit for full year in the current year. To cope with the business development, the Group's gearing ratio increased from 41% for the previous year to 52% this year, but the Group still maintained a strong financial position.

In 2020, under the severe impact of the COVID-19 pandemic, major economies in the world showed a downward trend. The intensification of instability and complications of geopolitical situations, posed uncertainties to the recovery of global economy. In China, with the implementation of precautionary measures in the first half of 2020, the level of economic activities gradually resumed to normal in the second half of 2020. To enable us to face the challenging environment, the Company reviewed our processes and systems to enhance our overall management capabilities and operational standards.

During the year, notwithstanding the pandemic, the Company continued to carry out our mission of providing safe water to our customers. We also implemented prevention and control measures, with the view to maintaining the normal operation and working order of the Company.

The Group's rental income was affected by the lockdown measures of COVID-19 epidemic in the first half of 2020. However, the rental income restored to the normal level when economic activities resumed to normal in the second half of 2020.

During the year, Shenzhen Huanye Universal Technologies Limited, an indirect wholly-owned subsidiary of the Company ("**Listco Subsidiary**") and Dongguan Zhaoyu Real Estate Co., Ltd. (the "**JV Partner**") entered into a joint venture agreement to jointly participate in land auctions and property development in Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The joint venture project allows the Company to leverage on a larger capital base to grow on a larger scale, thereby realising better economic benefits.

PROSPECTS

Looking forward to the coming year, the international macro environment is expected to be challenges. That having said, in every challenge there lies opportunity. Relying on its stable income stream and cash flow, the Group has laid solid foundation for its future development. The Group will continue to identify suitable business opportunities.

The Group is committed to developing attractive property projects in the PRC and overseas, with an emphasis on mature markets in first-tier cities in the PRC and developed countries to reduce risk, while focusing on investment or development returns. During the year, the Listco Subsidiary entered into a non-legally binding memorandum of understanding to invest not less than 51% in a target company which is participating in the development of a number of land parcels in the PRC.

The Company placed importance on corporate culture development and endeavored to increase our competitiveness through staff training and incentive policies. In January 2021, the Company adopted the Share Award Scheme to provide eligible staff with an opportunity to own equity in the Group in order to retain them for the continued operation, growth and development of the Group. By providing direct economic benefits to its staff, we can attract suitable personnel for the achievement of the Company's long term business objectives.

I would like to take this opportunity to express my gratitude to the Board, the senior management and our staff for their continued efforts, and the long-standing support from shareholders and our business partners. Looking ahead, we are committed to ensuring that we can continue to grow robustly with our stakeholders while creating greater value for our shareholders.

Chen Jinyang
Chairman and Chief Executive Officer

Hong Kong, 31 March 2021

Management Discussion and Analysis

FINANCIAL OVERVIEW

Revenue and loss for the year

During the current fiscal year, the Group recorded a revenue of HK$344,748,000, representing an increase of 14% or HK$41,150,000 as compared with the last fiscal year. Loss attributable to shareholders of the Company for the year ended 31 December 2020 was HK$36,337,000, representing a decrease of HK$80,297,000 as compared to the last fiscal year. Increase in revenue was mainly due to (a) increase in revenue of the Group's water supply business; and (b) rental income from commercial properties in China being recognised for full year in 2020, as compared to recognition for only part of the year in 2019. The decrease in net loss was mainly due to: (a) the recognition of a non-recurring impairment loss of the goodwill of the Group's businesses of water supply services and financial services in 2019 while no similar impairment loss of goodwill was recognised by the Group in 2020; and (b) profit from commercial properties in China being recognised for full year in 2020, as compared to recognition for only part of the year in 2019.

Impairment loss on goodwill

During the current fiscal year, the Group recorded an impairment loss on goodwill in the amount of HK$nil, representing a decrease of HK$99,037,000 as compared to the last fiscal year. The decrease of impairment loss on goodwill was mainly attributable to an impairment loss of the goodwill of the Group's businesses of water supply services and financial services was recorded in 2019 while no similar impairment loss of goodwill was recognised by the Group in 2020.

Cost of sales/services rendered

During the current fiscal year, the Group recorded a cost of sales/services rendered in the amount of HK$293,214,000, representing an increase of HK$55,553,000 as compared to the last fiscal year. The increase of cost of sales/services rendered was mainly attributable to the Group's water supply and related business.

Other income and gains

During the current fiscal year, the Group recorded other income and gains of HK$16,032,000, representing an increase of 61% as compared with the last fiscal year. The increase in other income and gains was mainly due to the gain on disposal of investment properties and gain on disposal of a subsidiary during the year.

General and administrative expenses

During the current fiscal year, the Group recorded general and administrative expenses of HK$87,902,000, representing an increase of 34% as compared with the last fiscal year. The increase in general and administrative expenses was mainly attributable to the impairment loss on certain assets during the year.

Share of loss of a joint venture

During the current fiscal year, the Group recorded share of loss of a joint venture of HK$106,000, representing an increase of HK$106,000 as compared with the last fiscal year. It was mainly attributable to the loss from a newly established joint venture during the year.

FINANCIAL OVERVIEW *(continued)*

Finance costs

During the current fiscal year, the Group recorded finance costs of HK$38,793,000 representing an increase of 60% as compared with the last fiscal year. It was mainly due to the increase in interest on bank loans during the year.

Income tax expense

During the current fiscal year, the Group recorded an income tax expense of HK$12,023,000, representing an increase of HK$8,507,000 as compared with the last fiscal year. It was mainly attributable to both the properties investment and development business and water supply and related business for the current year.

Property, plant and equipment

The Group's property, plant and equipment decreased by HK$24,461,000 from HK$471,050,000 as at 31 December 2019 to HK$446,589,000 as at 31 December 2020. The decrease was due to the depreciation for the current fiscal year.

Prepaid land lease premium

The Group's prepaid land lease premium decreased by HK$2,101,000 from HK$28,097,000 as at 31 December 2019 to HK$25,996,000 as at 31 December 2020. The decrease was mainly due to the amortisation and the disposal during the current fiscal year.

Investment properties

The Group's investment properties decreased by HK$4,973,000 from HK$691,076,000 as at 31 December 2019 to HK$686,103,000 as at 31 December 2020. It was mainly attributable to the disposal of certain investment properties during the current fiscal year.

Right-of-use assets

The Group's right-of-use assets increased by HK$3,121,000 from HK$2,484,000 as at 31 December 2019 to HK$5,605,000 as at 31 December 2020. The increase was mainly due to the renewal of lease agreement of the Group's head office in Hong Kong during the current fiscal year.

Interest in a joint venture

The Group's interest in a joint venture increased by HK$259,789,000 from HK$nil as at 31 December 2019 to HK$259,789,000 as at 31 December 2020. The increase was due to a joint venture newly established during the year.

Intangible assets

The Group's intangible assets decreased by HK$32,605,000 from HK$327,497,000 as at 31 December 2019 to HK$294,892,000 as at 31 December 2020. The decrease was mainly due to the amortisation for the current fiscal year.

FINANCIAL OVERVIEW *(continued)*

Inventories

The Group's inventories decreased by HK$12,195,000 from HK$28,280,000 as at 31 December 2019 to HK$16,085,000 as at 31 December 2020. The decrease was mainly due to the decrease in purchase of material for water pipeline construction projects for water supply and related business for the current fiscal year.

Debtors

The Group's debtors increased by HK$19,452,000 or 69% from HK$28,335,000 as at 31 December 2019 to HK$47,787,000 as at 31 December 2020. The increase in debtors was attributable to the increase in revenue for water supply and related business for the current fiscal year.

Deposits, prepayments and other receivables

Deposits, prepayments and other receivables consist of utilities and other deposits, prepayments, interest receivable, other tax receivables of water supply business and other receivables from independent third parties. The other receivables are unsecured and interest free.

The Group's deposits, prepayments and other receivables decreased by HK$1,240,000 from HK$10,952,000 as at 31 December 2019 to HK$9,712,000 as at 31 December 2020. The decrease was mainly attributable to decrease in other receivables from water supply and related business.

Cash and bank balances and fixed deposits

The Group's cash and bank balances and fixed deposits increased by HK$409,214,000 from HK$733,461,000 as at 31 December 2019 to HK$1,142,675,000 as at 31 December 2020. The increase in cash and bank balances and fixed deposits was mainly due to additional loan advanced by third party for the current year. As at 31 December 2020, 93% (31 December 2019: 89%) of cash and bank balances was denominated in Renminbi.

Bank and other borrowings

The Group's bank and other borrowings increased by HK$561,155,000 from HK$681,666,000 as at 31 December 2019 to HK$1,242,821,000 as at 31 December 2020. The increase was mainly attributable to the additional loan advanced by third party during the current fiscal year.

Trade payables

The Group's trade payable increased by HK$88,976,000 from HK$32,886,000 as at 31 December 2019 to HK$121,862,000 as at 31 December 2020. The increase of trade payables was mainly due to the booking of costs of sales as trade payables pending the resolution of disputes and litigations as more particularly set out in the section headed "Litigation" of this Report.

Payable to merchants

The Group's payable to merchants as at 31 December 2020 amounted to approximately HK$3,011,000, which is similar to the figure as at 31 December 2019.

FINANCIAL OVERVIEW *(continued)*

Deposits received, sundry creditors and accruals

Deposits received, sundry creditors and accruals consist of rental and other deposits received, accruals, construction fee payable, other tax payable and amount due to independent third parties of the water supply business. These amounts are unsecured and interest free.

The Group's deposits received, sundry creditors and accruals decreased by HK$72,723,000 from HK$185,997,000 as at 31 December 2019 to HK$113,274,000 as at 31 December 2020. The decrease was mainly attributable to the settlement of consideration payables for the acquisition of Guangzhou properties during the year.

Contract liabilities

The Group's contract liabilities decreased by HK$17,585,000 from HK$43,566,000 as at 31 December 2019 to HK$25,981,000 as at 31 December 2020. The decrease was mainly due to the increase in recognising contract liabilities as contract income of the Group's water supply and related business during the year.

Lease liabilities

The Group's lease liabilities increased by HK$3,077,000 from HK$2,547,000 as at 31 December 2019 to HK$5,624,000 as at 31 December 2020. The increase was in line with increase in right-of-use assets.

Amount due to a related company

The Group's amount due to a related company as at 31 December 2020 amounted to HK$47,000, which is similar to the figure as at 31 December 2019.

Tax payable

The Group's tax payable increased by HK$6,767,000 from HK$5,200,000 as at 31 December 2019 to HK$11,967,000 as at 31 December 2020. The increase was mainly attributable to the water supply and related business during the year.

Events after the reporting period

(i) Adoption of Share Award Scheme

The Company has adopted a Share Award Scheme ("**Share Award Scheme**") as an incentive to recognise the contributions by Eligible Participants and to retain them and attract suitable personnel for the continuing operation, growth and development of the Group. The Share Award Scheme was adopted by the Board on 15 January 2021 (the "**Adoption Date**") and ending on 31 December 2035. No further awards shall be granted after 31 January 2032 and no vesting date can be fixed beyond 31 December 2035 for awards.

The Board has delegated its power and authority to administer the Share Award Scheme (including without limitation the decision-making on purchases, subscriptions, awards, vesting and transfers of Shares under the Share Award Scheme) to the Administration Committee, which comprises staff representatives of the Group who are neither Directors, insiders nor their respective close associates.

FINANCIAL OVERVIEW *(continued)*

Events after the reporting period *(continued)*

(i) Adoption of Share Award Scheme (continued)

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company established for a wide scope of participants. No Shareholders' approval is required for the adoption or implementation of the Share Award Scheme. Further details regarding the adoption of the Share Award Scheme were disclosed in the Company's announcement dated 15 January 2021.

(ii) Discloseable transaction in relation to the proposed subscription of the Financial Investment

In February 2021, Qinghui Properties Limited ("**Qinghui**"), a 49%-owned subsidiary of the Group, proposed to participate in the fund-raising round of Guangdong Nanyue Bank Co., Ltd. ("**Nanyue Bank**"), through the proposed subscription of a maximum of 177,000,000 shares of Nanyue Bank (the "**Financial Investment**") for the subscription price of up to RMB380,550,000 (HK$455,203,000) in cash.

As the applicable percentage ratios as calculated under Rule 14.06 of the Listing Rules are less than 25%, the proposed subscription of the Financial Investment constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements but exempt from shareholders' approval requirement under Chapter 14 of the Listing Rules. Further details regarding the Financial Investment were disclosed in the Company's announcement dated 2 February 2021.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Group had net current assets of HK$897,027,000. Current assets comprised inventories of HK$16,085,000, debtors of HK$47,787,000, deposits, prepayments and other receivables of HK$9,712,000, fixed deposits of HK$143,614,000 and cash and bank balances of HK$999,061,000.

Current liabilities comprised bank and other borrowings of HK$40,362,000, trade payables of HK$121,862,000, payable to merchants of HK$3,011,000, deposits received, sundry creditors and accruals of HK$113,274,000, contract liabilities of HK$25,981,000, lease liabilities of HK$2,728,000, amount due to a related company of HK$47,000, and tax payable of HK$11,967,000.

The gearing ratio, which is defined as a percentage of the total liabilities (excluding deferred tax liabilities) over the total assets (excluding deferred tax assets), of the Group as at 31 December 2020 was 52% (2019: 41%).

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

BUSINESS REVIEW AND PROSPECTS

Business Review

For the year ended 31 December 2020, the Group was principally engaged in the business of water supply and related services as well as property investment and development. Revenue from the principal business amounted to approximately HK$344,748,000, representing an increase of 14% or approximately HK$41,150,000 as compared with the revenue of approximately HK$303,598,000 for the last year. Water supply and related business (including water quality inspection, water pipe repairs and maintenance, water meter maintenance and replacement and other related services) recorded a revenue of approximately HK$305,907,000, representing an increase of 5% or approximately HK$15,446,000 as compared with the revenue of approximately HK$290,461,000 for the last year, which was primarily attributable to the increased demand in tap water supply due to urban development.

The property investment and development business of the Group mainly comprise the rental operation of the Group's commercial properties in Guangzhou. During the year, the property development and investment segment of the Group recorded revenue of approximately HK$38,841,000, representing an increase of 196% or approximately HK$25,704,000 as compared with the revenue of approximately HK$13,137,000 for the last year. The increase in rental income was primarily due to the rental income from commercial properties in China being recognised for full year in 2020, as compared to recognition for only part of the year in 2019.

For the year ended 31 December 2020, the Group recorded a net loss attributable to shareholders of the Company of approximately HK$36,337,000, representing a decrease of HK$80,297,000 as compared to the previous year's net loss attributable to shareholders of approximately HK$116,634,000. The decrease in the loss for the year of the Group was mainly attributed to the non-recurrence of impairment loss for goodwill of the Group's water supply services and financial services for the last year, as no similar impairment loss for goodwill of the Group was recognised in 2020.

As disclosed in the Company's announcement dated 14 January 2020. Listco Subsidiary and the JV Partner (an independent third party) entered into the joint venture agreement (the "**JV Agreement**"), pursuant to which the Listco Subsidiary and the JV Partner (the "**JV Parties**") agreed to jointly establish the Joint Venture to participate in land auctions and property development in Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The JV Parties agreed to acquire a JV Company as a vehicle of the JV Project, which would be owned as to 30% by the Listco Subsidiary and 70% by the JV Partner, respectively. In accordance with the terms of JV Agreement, the Listco Subsidiary acquired 30% equity of the JV Company at a consideration of RMB3,000,000 (the "**Initial Subscription**"), and the maximum contribution committed by Listco Subsidiary in the JV Company is capped at RMB219,000,000 (the "**Listco Subsidiary's Contribution Limit**"). On 31 December 2020, RMB219,000,000 was already contributed by Listco Subsidiary in the JV Company.

PROSPECTS

The outbreak of the COVID-19 pandemic in 2020 and the trade tension between the United States and China is expected to continue to have an impact on the global economy. The global and domestic economies are expected to gradually rebound only after the COVID-19 pandemic is further brought under control.

The Group will continue to prudently focus on property investment and development in China and overseas, explore opportunities in potential investment and development projects in the property market to increase the recurring income and for capital appreciation purpose. As disclosed in the Company's announcement dated 6 December 2020, an indirect wholly-owned subsidiary of the Company entered into a non-legally binding memorandum of understanding with Dongguan Liyuan Industrial Investment Co., Ltd. to invest in property projects in the PRC. As disclosed in the Company's announcement dated 2 February 2021, it was proposed that a 49%-owned subsidiary of the Group would participate in the fund-raising exercise of Nanyue Bank, through the proposed subscription for a maximum of 177,000,000 shares of Nanyue Bank (the "**Financial Investment**") at a subscription price of up to RMB380,550,000 (HK$455,203,000) in cash. The Group will also explore suitable investment and diversification opportunities with the view to increasing its source of income and maintaining sustainable growth and safeguarding the interests of shareholders.

In addition to business development, the Group acknowledges that enterprises shall bear responsibilities and commitments to the environment, society and governance in different aspects. As such, the Group is committed to maintaining good corporate governance standards and procedures, and implement effective management systems and resource allocation with an aim to enhancing its competitiveness and maximising the value of its investment for shareholders, thereby achieving sustainable development of the Group. The Group places emphasis on talent development and deeply believes that the expertise and experience of its employees are important elements of the Group's long-term sustainable development. The Group is committed to providing training and career paths for its employees to develop their potential, skills and cultivate their sense of belonging, as well as providing incentive schemes to motivate and retain talents. As disclosed in the Company's announcement dated 15 January 2021, the Company adopted the Share Award Scheme as an incentive to recognise the contribution of eligible participants and to retain them and attract suitable candidates to join the Group for its continued operation, growth and development of the Group.

EMPLOYEES

As at 31 December 2020, the total number of employees of the Group was 400 (2019: 397). The remuneration of the employees (including directors) were determined according to their performance and work experience. In addition to basic salaries, discretionary bonus, award shares and share options may be granted to eligible employee by reference to the Group's performance as well as the individual's performance. The Group also provides social security benefits to its staff such as Mandatory Provident Fund Scheme in Hong Kong and the central pension scheme in the PRC.

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

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

On 14 January 2020, Listco Subsidiary and the JV Partner (an independent third party) entered into the JV Agreement, pursuant to which the JV Parties agreed to jointly establish the joint venture to participate in land auctions and property development in Guangdong-Hong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The JV Parties agreed to subscribe into a new project company (the "**JV Company**") to become the vehicle of the Joint Venture, which shall be owned as to 30% by Listco Subsidiary and 70% by the JV Partner. Under the terms of the JV Agreement, the maximum contribution committed by Listco Subsidiary in the JV Company is capped at RMB219,000,000 (equivalent to approximately HK$245,241,000). On 31 December 2020, RMB219,000,000 was already contributed by Listco Subsidiary in the JV Company. The transactions contemplated by the JV Agreement constitute a discloseable transaction for the Company. Further details regarding the joint venture are set out in the Company's announcement dated 14 January 2020.

(ii) Discloseable transaction regarding the disposal of car parking spaces

On 30 March 2020, Guangzhou Hengxin Yuxuan Industrial Development Limited ("**Hengxin Yuxuan**"), an indirect wholly-owned subsidiary of the Company and Guangzhou Yongyu Hexin Investment Co., Ltd. (the "**Purchaser**") entered into the Disposal Agreement, pursuant to which Hengxin Yuxuan agreed to sell, and the Purchaser agreed to acquire, the Car Parking Spaces for the aggregate consideration of RMB43.7 million (equivalent to approximately HK$48.1 million). On 30 June 2020, Hengxin Yuxuan and the Purchaser entered into a supplemental agreement to extend the Payment Deadline for three months, i.e. until 30 September 2020. The Disposal constitutes a discloseable transaction for the Company and was completed during the year. Details of the Disposal were set out in the Company's announcement dated 30 March 2020 and 30 June 2020.

(iii) Connected transaction regarding the capital contribution to a non-wholly owned subsidiary

On 3 December 2020, Qinghui, a 49%-owned subsidiary of the Group and Qinghui Shareholders entered into the Capital Contribution Agreement pursuant to which the Qinghui Shareholders agreed to increase the paid-up registered capital of Qinghui, with the additional paid-up registered capital of RMB100,000,000 (HK$117,647,000) in aggregate being contributed by Shenzhen Huanye Universal Technologies Co., Ltd. (the "**Huanye**"), an indirect wholly-owned subsidiary of the Group and Dongguan Hongshun Shaohe Development Co., Ltd. (formerly known as "**Dongguan Hongshun Shiye Development Co., Ltd.**") (the "**Hongshun**") in proportion to their respective voting rights of 49:51 in Qinghui.

As Hongshun is controlled by Ms. Zhu (an executive Director and the controller of Ever City Industrial Development Limited (the "**Ever City**"), a substantial shareholder of the Company) and her associates, being an associate of a connected person of the Company at the issuer level) exercises 10% or more of the voting right of Qinghui (excluding any indirect interest through the Company), the Capital Contribution by Huanye to Qinghui (being a connected subsidiary) constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the Capital Contribution by Huanye is conducted on normal commercial terms and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Capital Contribution by Huanye are all less than 5%, under Rule 14A.76(2)(a) of the Listing Rules, the Capital Contribution by Huanye is exempt from circular (including independent financial advice) and independent shareholders' approval requirements but is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules. Details of the connected transaction were set out in the Company's announcement dated 3 December 2020.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS *(continued)*

(iv) Memorandum of Understanding regarding the proposed investment in a property project in China

On 4 December 2020, Huanye, an indirect wholly-owned subsidiary of the Company entered into a non-legally binding memorandum of understanding (the "**MOU**") with Dongguan Liyuan Industrial Investment Co., Ltd. (the "**Target Company**"), pursuant to which Huanye proposed to invest in not less than 51% equity interest in the Target Company by way of subscription of new equity or acquisition of equity from the existing shareholders of the Target Company. Details of the MOU were set out in the Company's announcement dated 6 December 2020.

Save as disclosed above, the Group did not have any other significant investments, acquisitions and disposals for the year ended 31 December 2020.

CHARGES ON GROUP'S ASSETS

The Group's bank loans at 31 December 2020 were secured by:

(i) charges over a land use right under service concession arrangement with a carrying amount of RMB2,375,000 (equivalent to approximately HK$2,671,000);

(ii) pledge of trade receivables with a carrying amount of RMB34,449,000 (equivalent to approximately HK$40,883,000);

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

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

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

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

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

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 15 February 2019, the Company (as purchaser), Billion Eminence Investment Limited (the "**Vendor**") and Chevalier Earth Group Limited (the "**Target Company**") entered into the acquisition agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the sale interests for the total cash consideration of RMB576,000,000. Simultaneously, the Company launched the Rights Issue and the Placing to finance the consideration. The gross proceeds raised by the Company from the Placing and the Rights Issue amount to HK$780,231,277 in aggregate. Details of the Acquisition, Rights Issue and the Placing were disclosed in the Company's announcements dated 15 February 2019, 23 April 2019 and 18 June 2019 and the Company's circular dated 22 March 2019.

The Group originally intended to use the net proceeds of the Rights Issue and the Placing in the aggregate amount of approximately HK$767.99 million for the following sequence: (i) approximately HK$673.29 million (equivalent to RMB 576,000,000) for settlement of the consideration; and (ii) the balance of approximately HK$94.70 million for the development of fund investment and management businesses of the Group in Hong Kong and the PRC. Up to 30 June 2020, approximately HK$637.73 million (equivalent to RMB576,000,000) was already utilized for settlement of the consideration payable on completion of the Acquisition. The remaining net proceeds of the Rights Issue and the Placing in the approximate amount of HK$130.26 million was applied to finance the Listco Subsidiary's Contribution Limit of the joint venture. After funding for the said purposes, the net proceeds from the Rights Issue and the Placing have been fully utilized. The Board is of the view that the use of the remaining net Proceeds in the Listco Subsidiary's Contribution Limit is in the best interests of the Company and is largely in line with the original purposes of the equity fundraising, namely, to expand the property development and investment portfolio of the Group and to join force with co-investors with the view to investing in non-controlling interests in bigger projects in China with synergy with the Group's principal business activities (which includes property development and investment).

On 14 January 2020, Listco Subsidiary and the JV Partner entered into the JV Agreement, pursuant to which the JV Parties agreed to jointly establish the joint venture to participate in land auctions and property development in GuangdongHong Kong-Macao Greater Bay Area and first and second-tier cities in the PRC. The JV Parties agreed to subscribe into a JV Company to become the vehicle of the joint venture, which shall be owned as to 30% by Listco Subsidiary and 70% by the JV Partner. Under the terms of the JV Agreement, the maximum contribution committed by Listco Subsidiary in the JV Company is capped at RMB219,000,000 (equivalent to HK$245,241,000). On 31 December 2020, RMB219,000,000 was already contributed by Listco Subsidiary in the JV Company.

On 3 December 2020, Qinghui, a 49%-owned subsidiary of the Group and Qinghui Shareholders entered into the Capital Contribution Agreement pursuant to which the Qinghui Shareholders agreed to increase the paid-up registered capital of Qinghui, with the additional paid-up registered capital of RMB100,000,000 (HK$117,647,000) in aggregate being contributed by Huanye, an indirect wholly-owned subsidiary of the Group and Hongshun in proportion to their respective voting rights of 49:51 in Qinghui. Details of the Connected transaction were set out in the Company's announcement dated 3 December 2020.

On 4 December 2020, Huanye, an indirect wholly-owned subsidiary of the Company entered into a non-legally binding MOU with the Target Company, pursuant to which Huanye proposed to invest in not less than 51% equity interest in the Target Company by way of subscription of new equity or acquisition of equity from the existing shareholders of the Target Company. Details of the MOU were set out in the Company's announcement dated 6 December 2020.

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

In February 2021, Qinghui, a 49%-owned subsidiary of the Group, proposed to participate in the Fund-raising Round of Nanyue Bank currently taking place, through the Proposed Subscription of a maximum of 177,000,000 Nanyue Bank Shares for the subscription price of up to RMB380,550,000 (HK$455,203,000) in cash. Further details regarding the Financial Investment were disclosed in the Company's announcement dated 2 February 2021.

Save as disclosed above, there was no other future plan for material investments or capital assets for the year ended 31 December 2020.

CURRENCY RISK

The Group's core businesses are mainly transacted and settled in Renminbi and the majority of assets and liabilities are denominated in Renminbi ("**RMB**") and Hong Kong dollar ("**HK$**"). There are no significant assets and liabilities denominated in other currencies. During the year ended 31 December 2020, the Group did not enter into any arrangements to hedge its foreign currency exposure. Any material fluctuation in the exchange rates of HK$ or RMB may have an impact on the operating results of the Group.

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

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had capital commitments contracted but not provided for in the amount of approximately HK$4,572,000 (2019: approximately HK$18,390,000) comprising (i) acquisition of property, plant and equipment of approximately HK$4,572,000 (2019: approximately HK$18,373,000); and (ii) other intangible assets (as defined under the adopted accounting standards) of approximately HK$nil (2019: approximately HK$17,000), both of which being in connection with the capital expenditures of the Group's water supply and related business.

CONTINGENT LIABILITIES

The Directors consider that the Group had no contingent liabilities as at 31 December 2020.

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

Pursuant to Rule 13.51B of the Listing Rules the changes in the information of the Directors subsequent to the date of the 2019 Annual Report are as follows:

1. Mr. Chau Cheuk Wah has retired as a non-executive director of the Company at the conclusion of the Annual General Meeting on 29 May 2020. Mr. Chau resigned as director of the following subsidiaries of the Company, namely, Universal Cyberworks International Ltd., Wayland Asia Pacific Estate Ltd., Billion Champ Corporation Limited, International Payment Solutions (Hong Kong) Limited, Ease2Pay Limited, Universal Technologies (Hong Kong) Limited, Universal Technologies Investment Limited, Universal Property Holdings Limited, Universal Technologies Capital Holdings Limited and Universal Technologies Credit Limited, with effect from 29 May 2020. Mr. Chau also resigned as director of Leading International Group Inc., a subisidiary of the Company, with effect from 20 August 2020.

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

2. Mr. Xuan Zhensheng resigned as a director and a member of Audit Committee of Guangdong Golden Dragon Development Inc. ("GD", the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000712) with effect from 8 June 2020. Mr. Xuan was appointed as director of the following subsidiaries of the Company, namely, Universal Cyberworks International Ltd., Wayland Asia Pacific Estate Ltd., Billion Champ Corporation Limited, International Payment Solutions (Hong Kong) Limited, Ease2Pay Limited, Universal Technologies (Hong Kong) Limited, Universal Technologies Investment Limited, Universal Property Holdings Limited, Universal Technologies Capital Holdings Limited and Universal Technologies Credit Limited, with effect from 29 May 2020. Mr. Xuan was also appointed as a director of Leading International Group Inc., a subsidiary of the Company, with effect from 20 August 2020.

3. Ms. Zhu Fenglian resigned as director, the chairperson and the legal representative of GD with effect from 3 August 2020.

4. Dr. Cheung Wai Bun, Charles, J.P. resigned as an independent non-executive director of Fullsun International Holdings Group Co., Limited (stock code: 00627) with effect from 10 December 2020.

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

LITIGATION

Save as disclosed below, as at the date of this Report, neither the Company nor any other member of the Group was engaged in any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group:

Reference is made to the Company's announcement dated 3 March 2020 (the "**Announcement**") regarding the Cessation Notice issued by the Bureau on 3 March 2020, the cessation of water intake of Qixinggang Water Plant operated by WSD Company (a subsidiary of the Group) and the commencement of full water intake from the Government-designated Water Plant. Unless the context otherwise requires, capitalized terms in this section have the same meanings as defined in the Announcement.

As disclosed in the Announcement, the Group has sought legal advice to uphold its right regarding the Cessation Notice and the water intake from the Government-designated Water Plant. In October 2020, WSD Company received a writ of civil claim from the Government-designated Water Plant alleging to claim against WSD Company the "cost of water supply" in the sum of RMB96.5 million. After seeking advice from their PRC legal advisers, WSD Company is of the view that the dispute is originated from administrative decision/order given by the governmental bodies instead of a contract voluntarily entered into by a willing buyer and therefore the plaintiff's claim is without legal basis. At this stage, it is difficult to predict the outcome of the litigation. However, the Group has provided the cost of water supply, based on a reasonable estimation, in its consolidated financial statements, pending the resolution of the relevant disputes and litigations. Further announcement(s) will be made by the Company if there is any material development of this matter or the related disputes/litigations which warrant disclosure.

DIRECTORS

Executive Directors

Mr. Chen Jinyang

Mr. Chen, aged 50, was appointed as an Executive Director, the Chairman of the Board, Chief Executive Officer and an authorised representative of the Group on 18 December 2012,16 September 2013, 3 June 2019 and 29 October 2015 respectively. Prior to joining the Company, Mr. Chen already had substantial experience and knowledge of banking industry and investment business in the PRC. Mr. Chen is currently a responsible officer and director of Hooray Asset Management Limited, a type-9 licensed corporation and a wholly-owned subsidiary of the Company.

Ms. Zhu Fenglian

Ms. Zhu, aged 56, was appointed as an Executive Director of the Group on 19 May 2016. She graduated from the Department of Chinese of Sun Yat-Sen University, China in 1985 with a Bachelor's degree. She has extensive experience in corporate management. She was formerly the chairperson of Guangdong Boxin Investment Holdings Limited ("**Boxin**", the shares of which are listed on the Shanghai Stock Exchange with stock code: 600083) from March 2010 to April 2016; and a director, the chairperson and Legal Representative of Guangdong Golden Dragon Development Inc. ("**GD**", the shares of which are listed on the Shenzhen Stock Exchange with stock code: 000712). She is currently (i) the chairperson of Dongguan New Century School; (ii) a director of Ruijin Equity Investment Fund Management (Shenzhen) Company Limited, a wholly-owned subsidiary of the Company; (iii) a director and the general manager of Qinghui, a 49% owned subsidiary of the Company; (iv) a director and the manager of Dongguan Xinhongcheng Enterprise Management Company Limited, a 49% owned subsidiary of the Company; (v) the Legal Representative and an Executive Director of Qingyuan Jinhong Industrial Company Limited, a wholly-owned subsidiary of Qinghui; (vi) a director of Qingyuan Water Supply Development Company Limited, a wholly-owned subsidiary of Qinghui; and (vii) a director of the following companies, namely, Dongguan Jinshun Real Estate Investment Limited, Dongguan Jincheng Real Estate Investment Limited, Dongguan Yuhe Shiye Limited, Dongguan Securities Limited, Zhongshan Securities Co., Ltd., Hooray Securities Limited, Hooray Capital Limited and Hooray Asset Management Limited.

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

DIRECTORS *(continued)*

Executive Directors *(continued)*

Ms. Zhang Haimei

Ms. Zhang, aged 53, was appointed as a Non-Executive Director of the Group on 23 December 2015 and re-designated as an Executive Director of the Group on 23 April 2018. Ms. Zhang is experienced in financial management. Ms. Zhang obtained a diploma in accounting and possesses the qualification of junior level accounting in the PRC.

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

DIRECTORS *(continued)*

Non-Executive Directors

Mr. Xuan Zhensheng

Mr. Xuan, aged 51, was appointed as Non-Executive Director of the Group on 23 April 2018. Mr. Xuan obtained a diploma in Economics Management in the PRC, and specialty in accountant qualifications issued by the Ministry of Personnel of PRC.

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

Mr. Chau Cheuk Wah

Mr. Chau, aged 66, was appointed as the Chief Executive Officer and an Executive Director of the Group on 3 June 2013 and 16 September 2013 respectively. On 2 June 2019, Mr. Chau completed his CEO service contract with the Company and indicated his decision of not renewing his CEO service contract further. On 3 June 2019, Mr. Chau was re-designated from an Executive Director to a Non-Executive Director of the Company. Mr. Chau has retired as a Non-Executive Director of the Company at the conclusion of the Annual General Meeting on 29 May 2020. Mr. Chau has 40 years of experience in banking and finance in Hong Kong and China with various global financial institutes. Mr. Chau was graduated from The Chinese University of Hong Kong with a bachelor degree in Business Administration.

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

DIRECTORS *(continued)*

Independent Non-Executive Directors

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

Dr. Cheung, aged 84, is an Independent Non-Executive Director, the Chairman of Remuneration Committee and a member of Audit Committee and Nomination Committee of the Company. He was awarded with Honorary Doctorate Degree in Business Administration by John Dewey University in the United States in 1984. He obtained a master degree in Business Administration and a Bachelor of Science degree in Accounts and Finance from New York University in the United States in 1962 and 1960, respectively. Dr. Cheung is a director and vice chairman of Executive Committee of Metropolitan Bank (China) Ltd. He was formerly (i) an independent non-executive director and the chairman of Audit Committee of Shanghai Electric Group Company Limited (stock code: 2727 (Hong Kong) and A Stock 601727 (Shanghai)); (ii) an independent non-executive director, the chairman and subsequently the co-chairman of the Board of Grand T G Gold Holdings Limited (stock code: 8299); (iii) an independent non-executive director of China Taifeng Beddings Holdings Limited (formerly a listed company in Hong Kong); (iv) an independent non-executive director and the chairman of Nomination Committee and Audit Committee of China Financial International Investments Limited (stock code: 721); (v) an executive director and the chairman of the Board of Roma Group Limited (stock code: 8072) ; and (vi) an independent non-executive director and the member of Audit Committee, Remuneration Committee and Nomination Committee of Fullsun International Holdings Group Co., Limited (stock code: 627). Dr. Cheung was also formerly independent non-executive director and the director general of Audit Committee of China Resources Bank of Zhuhai Co. Ltd. Dr. Cheung is currently (i) an independent non-executive director and the chairman of Audit Committee of Pioneer Global Group Limited (stock code: 224) and Modern Dental Group Limited (stock code: 3600); (ii) a non-executive director of Galaxy Entertainment Group Limited (stock code: 027); and (iii) an independent non-executive director and chairman of Remuneration Committee of Jiayuan International Group Limited (stock code: 2768), all of which are companies listed on the Main Board of the Stock Exchange. Dr. Cheung is an independent non-executive director and the chairman of Nomination Committee of Yin He Holdings Limited (formerly named Zebra Strategic Holdings Limited) (stock code: 8260) listed on GEM of the Hong Kong Stock Exchange. He is also a Council member of the Hong Kong Institute of directors. He was a former visiting professor of School of Business of Nanjing University, China. He is a member of Hospital Governing Committee of both Kowloon Hospital and Hong Kong Eye Hospital and a member of Regional Advisory Committee of Hospital Authority. He was a former director and advisor of the Tung Wah Group of Hospitals. Dr. Cheung was formerly a chief executive and executive deputy chairman of Mission Hills Group.

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

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. David Tsoi

Mr. Tsoi, aged 73, was appointed as an Independent Non-Executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company on 3 June 2013. Mr. Tsoi is the managing director of Alliott, Tsoi CPA Limited. Mr. Tsoi obtained a master's degree in business administration from the University of East Asia, Macau (currently known as University of Macau) in 1986. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong, the Institute of Chartered Accountants of England and Wales, the Society of Chinese Accountants and Auditors and the CPA Australia, respectively, and a member of Chartered Professional Accountants of British Columbia, Canada. He was formerly (i) an independent non- executive director of CRRC Corporation Limited (formerly known as CSR Corporation Limited) (stock code: 1766);(ii) an independent non-executive director, chairman of Audit Committee, Nomination Committee and Corporate Governance Committee of Anxin-China Holdings Limited (formerly a listed company in Hong Kong); (iii) an independent non-executive director and chairman of Audit Committee of Enviro Energy International Holdings Limited (stock code: 1102); and (iv) an independent non-executive director, chairman of Audit Committee and Remuneration Committee of Loto Interactive Limited (formerly named MelcoLot Limited) (stock code: 8198). Mr. Tsoi is currently (i) an independent non-executive director, chairman of Audit Committee and Remuneration Committee of Green International Holdings Limited (stock code: 2700); (ii) an independent non-executive director of Guru Online (Holdings) Limited (stock code: 8121); (iii) an independent non-executive director of Tianli Holdings Group Limited (stock code: 117); (iv) an independent non-executive director and chairman of Audit Committee of VPower Group International Holdings Limited (stock code: 1608); and (v) an independent non-executive director and chairman of Audit Committee of Everbright Grand China Asset Limited (stock code: 3699), the shares of which are all listed on the Hong Kong Stock Exchange.

DIRECTORS *(continued)*

Independent Non-Executive Directors *(continued)*

Mr. Chao Pao Shu George

Mr. Chao, aged 74, was appointed as an Independent Non-Executive Director, a member of Audit Committee, Nomination Committee and Remuneration Committee of the Company on 16 September 2013, and further appointed as Chairman of Nomination Committee of the Company on 13 January 2016.

Mr. Chao was formerly an independent non-executive director, chairman of Remuneration Committee and member of Audit Committee, Nomination Committee and Corporate Governance Committee of Anxin-China Holdings Limited (formerly a listed company in Hong Kong).

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

SENIOR MANAGEMENT

Mr. Chen Jinyang

Mr. Chen, aged 50, was appointed as Chief Executive Officer on 3 June 2019. He is also the Chairman of the Board, an Executive Director and an authorised representative of the Group. Please refer to the paragraph headed "Directors" in this section above for his biography.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "CG Code"). The Company has complied with the applicable Code Provisions of the CG Code save for the deviation mentioned below:

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

In relation to A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend the Company's annual general meeting. Certain Director was unable to attend the Company's annual general meeting held on 29 May 2020 due to other commitments.

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

BOARD OF DIRECTORS

Board Composition

The Board comprises seven Directors, including three Executive Directors, namely, Mr. Chen Jinyang (Chairman and Chief Executive officer), Ms. Zhu Fenglian and Ms. Zhang Haimei; one Non-Executive Director, namely Mr. Xuan Zhensheng; and three Independent Non-Executive Directors, namely Dr. Cheung Wai Bun, Charles, J.P. , Mr. David Tsoi and Mr. Chao Pao Shu George. Throughout the year and up to the date of this report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with at least one Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. To comply with Rule 3.10A of the Listing Rules, Independent Non-Executive Directors represented at least one-third of the Board throughout the year ended 31 December 2020.

The Company has received annual confirmation of independence from each of the Independent Non-Executive Directors pursuant to Rule 3.13 of the Listing Rules and all Independent Non-Executive Directors are considered to be independent. Brief biographical particulars of the Directors are set out on pages 18 to 23.

BOARD OF DIRECTORS *(continued)*

Board's Responsibilities and Delegation

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

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

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

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

Compliance with the Model Code for Directors' Securities Transactions

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

Having made specific enquiry of all Directors, the Directors have complied with the above-mentioned required standards of dealings regarding Directors' securities transactions throughout year ended 31 December 2020.

Meetings

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

	Number of meeting attended/held	
Directors	**Board meetings**	**AGM**
Mr. Chen Jinyang	7/7	1/1
Ms. Zhu Fenglian	7/7	1/1
Ms. Zhang Haimei	7/7	1/1
Mr. Xuan Zhensheng	7/7	1/1
Mr. Chau Cheuk Wah (retired at the AGM on 29 May 2020)	4/4	1/1
Dr. Cheung Wai Bun, Charles, *J.P.*	7/7	1/1
Mr. David Tsoi	7/7	0/1
Mr. Chao Pao Shu George	7/7	1/1

BOARD OF DIRECTORS *(continued)*

Corporate governance functions

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

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

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

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

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

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

Directors' Continuing Professional Development Programme

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

COMPANY SECRETARY

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

Mr. Tang supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. He has attained not less than 15 hours of relevant professional training during the year 2020.

REMUNERATION COMMITTEE

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

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

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

REMUNERATION COMMITTEE *(continued)*

The remuneration committee held one meeting for the year ended 31 December 2020. The composition of the remuneration committee during the year as well as the meeting attendance of the committee members are as follows:–

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars in relation to Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 7(b) to the consolidated financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 December 2020 is set out below:

Remuneration bands	Number of individuals
HK$2,000,000 to HK$3,000,000	1

NOMINATION COMMITTEE

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

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

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

The nomination committee held one meeting for the year ended 31 December 2020. The composition of the nomination committee during the year as well as the meeting attendance of the committee members are as follows:–

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

NOMINATION COMMITTEE *(continued)*

Board Diversity Policy

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

Nomination Policy

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

Selection Criteria

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

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

NOMINATION COMMITTEE *(continued)*

Nomination Policy *(continued)*

Nomination Procedures

a. *Appointment of New Director*

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

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

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

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

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

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

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

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

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

NOMINATION COMMITTEE *(continued)*

Nomination Policy *(continued)*

Nomination Procedures (continued)

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

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

Monitoring, Reporting and Regular review

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

RISKS MANAGEMENT AND INTERNAL CONTROLS

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

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

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company. The financial statements set out on pages 75 to 160. Financial results of the Company are announced in a timely manner in accordance with statutory and/or regulatory requirements. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, and have therefore prepared the Company's accounts on a going concern basis.

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

The responsibilities of the external auditor with respect to the financial statements for the year ended 31 December 2020 are set out in the Independent Auditor's Report on pages 69 to 73.

AUDITOR'S REMUNERATION

For the year ended 31 December 2020, the remuneration paid and payable to the external auditor of the Group for services provided are set out as follows:

SERVICES RENDERED	Fee Paid/Payable 2020 HK$'000
Statutory audit services	1,135
Review of interim results	516
Taxation services	58
	1,709

AUDIT COMMITTEE

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

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

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

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

The audit committee held two meetings for the year ended 31 December 2020. The composition of the audit committee during the year as well as the meeting attendance of the committee members are as follows:–

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

Dividend Policy

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

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an extraordinary general meeting

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

Procedures for putting forward proposals by Shareholders at Shareholders' meeting

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, However, Shareholders may request the Company to convene an extraordinary general meeting following the procedures under Article 58 of the Articles as set out above.

Pursuant to Article 88 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless there shall have been lodged at the registered office or at the head office a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she shall deposit a written notice at the Company's head office and principal place of business in Hong Kong in compliance with Article 88 and containing all details as required by Rule 13.51(2) of the Listing Rules.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions set out in the notice of the forthcoming annual general meeting will be voted by poll.

Shareholders' Communication Policy

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

INVESTOR RELATIONS

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

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

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

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

ABOUT THE REPORT

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

SCOPE AND REPORTING PERIOD

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of the three major operations of water treatment and distribution services, property leasing services, and the headquarters office, from 1 January 2020 to 31 December 2020 ("Reporting Period"), unless otherwise stated.

The water treatment and distribution services, operated by the Qingyuan Water Supply Development Company Limited ("Water Supply Development Company", or "WSD Company") and Qingyuan Qingxin District Taihe Water Company Limited ("Taihe Company"), together as the "Water Supply Companies", sourced, treated, and supplied freshwater, and provided relevant services, such as repair and maintenance of water pipes and meters, to the urban areas of Qingyuan city and Taihezhen, Guangdong Province of the People's Republic of China ("PRC"). As regarding the cessation notice issued by the Water Resources Bureau of Qingyuan City, the WSD Company ceased the water intake and treatment at its Qixinggang Water Plant and commenced water intake at another water plant owned and designated by the Government (Government-designated Water Plant) in March 2020; water distribution networks and other services remained unchanged.

The property leasing services is performed through Dongshan Jinxuan Modern Mall ("Dongshan Mall"), a commercial complex situated in Yuexiu District, Guangzhou, compromising of retail shops, restaurants and cafes, beauty and fitness centres, tuition centre, and parking spaces.

The headquarters office, located in Sheung Wan, Hong Kong (the "Headquarters"), manages the above operations.

THE GROUP'S SUSTAINABILITY MISSION AND VISION

Mission

The Group strives to provide safe and high-quality services for all its operations. For the Water Supply Companies, they focus on continuously improving its water supply, maintaining stringent industrial standards and securing end users' access to reliable and quality freshwater. They are also committed to the core mission of exercising water stewardship and encouraging sustainable use of water resources. For Dongshan Mall, which is located in the traditional core area of Guangzhou, it aims to create value for its tenants, and bring a fulfilling and reliable shopping experience to customers where shoppers' personal and properties' safety are protected.

VISION ON SUSTAINABILITY

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

MAJOR CHALLENGES AND DEVELOPMENT

The water supply operations abide by the Water Supply Management Method of Qingyuan, the Civilisation Convention of Qingyuan and the applicable laws and regulations of the PRC. In recent years, the escalating freshwater demand has increased pressure on the water treatment operations; ageing pipelines and distribution networks have also built risks of leakage and bursts. During the Reporting Period, the Water Supply Companies had established and commenced a series of improvement measures to enhance water supply stability and efficiency. Some of the control measures planned include:

- Increasing frequency of pipelines inspection to identify and seal any leakage found
- Improving transparency of existing pipelines locations and enhancing communication with construction workers to prevent damage during construction
- Arranging relevant repair plans and leakage detection systems to reduce leakage
- Upgrading water supply networks and pumping stations to reduce water loss
- Strengthening the use of information system to enhance management efficiency and issues identifications

The Water Supply Companies will keep on investing on transformation work to ensure a stable supply of water for the residents' daily needs.

For Dongshan Mall, a brief action plan and future directions to work towards are as follows:

- Improving energy efficiency and reducing consumption
- Increasing contributions to the local community surrounding the Mall
- Giving assistance to the renovation of the old town and residential area
- Enforcing waste sorting and providing relevant help to tenants when necessary
- Regulating air quality within the Mall area stringently
- Turning the Mall into a green building where use of resources and future development can align with the principles of environmental friendliness

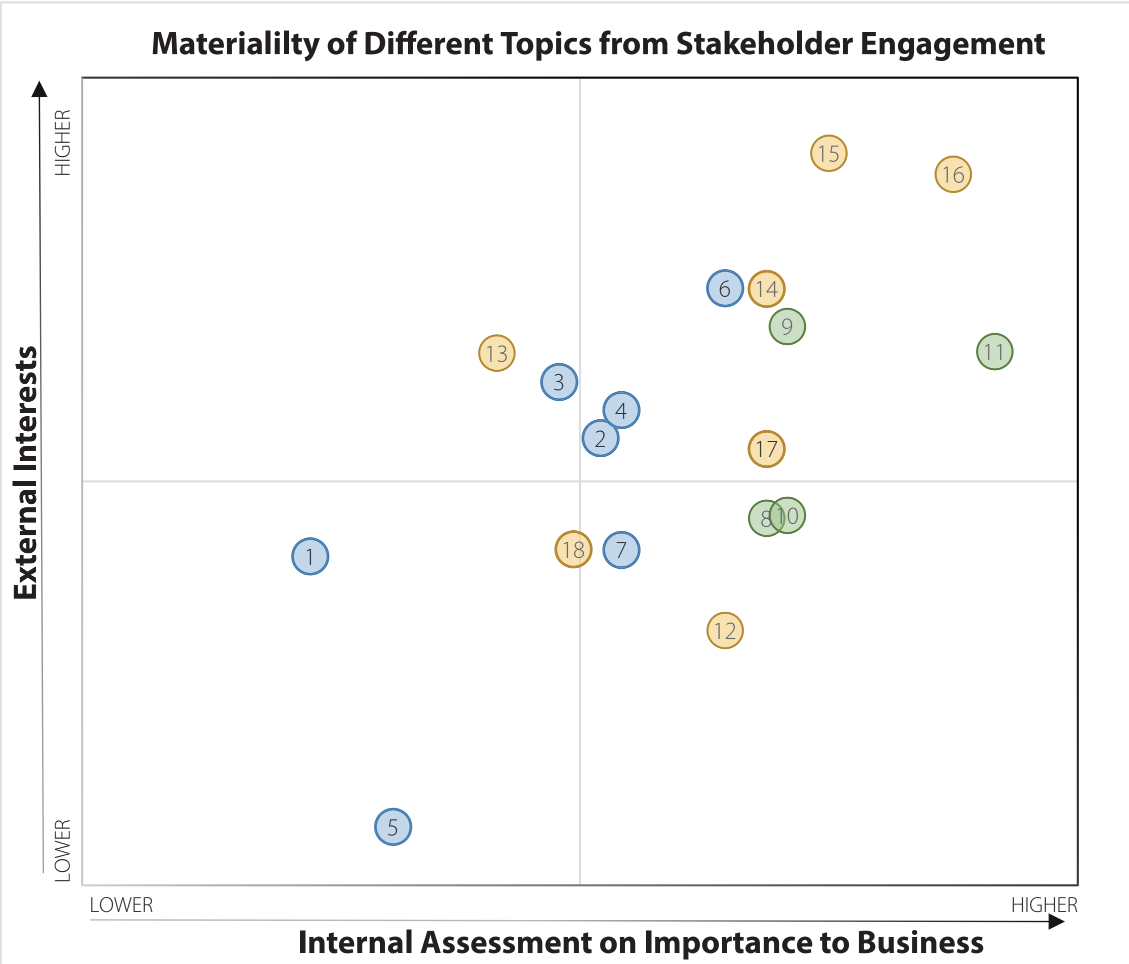
In the long term, the Group hopes that Dongshan Mall could create influence on the wider community by encouraging the use of alternative fuel cars and improving air quality of the town.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values input from its stakeholders, hence, both internal and external stakeholders are engaged with. Through regular meetings, face-to-face discussions, and questionnaires, the Group is able to understand its internal stakeholders better. To build a closer relationship with its users or external stakeholders, the Group's operations go into communities regularly to obtain feedback, address concerns, or solve misunderstandings. For example, the Water Supply Companies reach out to consumers on different festivals and seasonally for various purposes. They also participate in industry associations, such as the Guangdong Cities and Towns Water Supply Association, and the Northern Guangdong Communication Group to share and exchange industrial news and ideas.

STAKEHOLDER ENGAGEMENT AND MATERIALITY *(continued)*

During the year, the Group has engaged its senior management, shareholders, employees, regulatory institutions, suppliers, technicians, and customers (including business and household customers) through surveys to determine the material ESG aspects for this ESG Report. A materiality assessment has been carried out to show the topics that are important to the Group and its external stakeholders.



Environmental		Labour Practices		Operational Practices	
1	Energy	8	Employment	12	Supply Chain Management
2	Water	9	Occupational Health and Safety	13	Intellectual Property
3	Air Emission	10	Development and Training	14	Data Protection
4	Waste and Effluent	11	Labour Standards	15	Customer Service
5	Other Raw Materials Consumption			16	Product/Service Quality
6	Environmental Protection Measures			17	Anti-corruption
7	Climate Change			18	Community Investment

STAKEHOLDER ENGAGEMENT AND MATERIALITY *(continued)*

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

Material Aspects	Management Approach on the Aspects
Water Quality and Safety	Ensure quality and safety of water (including surface water, raw water, supply water and pipe network water) through frequent laboratory tests, and chemical use, hygiene and safety control throughout the treatment process.
Customer Service	Ensure publicly accessible hotlines, WeChat account, and other communication channels are available for users'/customers'/clients' feedback and enquiries, and handle enquiries or complaint promptly.
Labour Standards	Stringently conduct background checks on candidates eligibility and willingness of working for the Group.
Data Protection	Ensure that electronic data is stored appropriately in the database with encryption programmes; hard copies are documented in files room and to be placed in the custody of an appointed person.
Occupational Health and Safety	Provide medical insurance, annual body checks, annual women health checks, proper Personal Protective Equipment ("PPE") and health and safety trainings to employees.

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

STAKEHOLDERS' FEEDBACK

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

A. ENVIRONMENTAL

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

A1. Emissions

Types of emission sources the Water Supply Companies and Headquarters involved in the Reporting Period were mainly liquefied petroleum gas ("LPG"), petrol, diesel, electricity, water, non-hazardous waste (paper and sludge) and mud water. The business does not involve in production-related air pollutions and complies with all water-related national laws and regulations.

A1.1. Air Emissions

During the Reporting Period, LPG was consumed for canteen operation, and petrol and diesel were consumed for Group-owned vehicles, which contributed to the emission of 284.89 kg of nitrogen oxides ("NO_x"), 0.50 kg of sulphur oxides ("SO_x") and 5.32 kg of particulate matters ("PM").

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

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

During the Reporting Period, 22,144.81 tonnes of carbon dioxide equivalent (tCO_2e) GHG (mainly carbon dioxide, nitrous oxides and methane) were emitted from Group's operations. The annual emission intensity was 58.58 tCO_2e/employee, or 1.30 tCO_2e/hectare.

Sources of Greenhouse Gas Emissions		Emission (tCO_2e)	Sub-total (tCO_2e)	Total Emission (%)
Scope 1 – Direct Emission	LPG consumed by the canteen operation	0.87	101.48	0.46
	Petrol consumed by Group-owned vehicles	35.56		
	Diesel consumed by Group-owned vehicles	50.97		
	Refrigerants	14.08		
Scope 2 – Energy Indirect Emission	Purchased electricity	22,025.08	22,025.08	99.46
Scope 3 – Other Indirect Emission	Paper waste disposal	9.82	18.25	0.08
	Electricity used by third parties for processing fresh water and sewage	8.43		
Total			21,444.81	100

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

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

Note 3: An emission factor of 0.8042 tCO_2/kWh was used for purchased electricity in Guangdong Province of the PRC.

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

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

Note 6: Consumption of electricity and water In Dongshan Mall covers only that of November and December 2020, due to difficulty in obtaining previous data after a change in property management in October.

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

A1.3. Hazardous Waste

The Water Plant operations consumed chemicals including, polyaluminium chloride ("PAC"), hydrochloric acid, sodium chlorate and sodium hypochlorite. When disposed of improperly, hazardous waste poses potential hazard to human health and the environment. Therefore, hazardous materials used by the water treatment operations are handled carefully. A total of 120 kg of laboratory waste was generated during the Reporting Period. Laboratory waste generated were all collected by licensed collectors.

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

A1.4. Non-hazardous Waste

Non-hazardous waste generated from the Group are mainly mud from dewatered mud in the water treatment operations and paper from the office operations. The mud is first stored in the plant, and after reaching a certain amount, it will be sent to the site designated by the environmental department for landfill. A total of 290,000 tonnes of mud was generated and disposed of during the Reporting Period. As for paper use, a total of 2.0 tonnes of paper were used for daily office operations such as documents printing and deliverables packaging. Printed documents are usually filed and stored for record. For Dongshan Mall specifically, there is no relevant data for the Reporting Period. Yet, it closely follows local guidelines in the treatment of non-hazardous waste. And it will also start to explore measures it can take to handle such waste and develop systems to mark records of generation of such waste.

A1.5. Measures to Mitigate Emissions

The Water Supply Companies and the Headquarters strictly manage fuel usage and distance travelled by their vehicles. Fuel consumption is estimated, verified and announced monthly and preference is given to fuel efficient vehicles when purchasing new vehicles. Air conditioners in cars are only switched on during hot weather, rainy or foggy days. Employees are also encouraged to take public transit to work. In the Water Supply Companies especially, greening has been worked on to improve the air quality for a comfortable working environment.

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

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

A1.6. Waste Reduction and Initiatives

The Group understands that high paper consumption piles pressure on the Earth's natural forests and endangered wildlife. Therefore, it encourages paperless administrative procedures as much as possible. When paper use is inevitable, paper saving practices shall be adopted. For example, employees are encouraged to use duplex printing for internal documents and adopt environmentally friendly photocopying habits. Wastepaper recycling trays for paper as well as other waste are provided in prominent areas for proper reuse or recycling. In general, a sense of anti-waste is promoted within the Group to contribute to preservation of resources, and reduction in consumption. During the Reporting Period, 37.25 kg of paper was recycled, contributing to a reduction of 0.18 tCO_2e emission. In Dongshan Mall, it has also installed some hand dryers in certain washrooms with the primary purpose to replace some of its paper towels use. It will continue to find ways to reduce waste in more areas.

A2. Use of Resources

During the Reporting Period, the main resources used are energy and water used to process the water treatment operations by the Water Supply Companies. The intensities below are calculated in terms of resources consumption per million m^3 of supplied water.

A2.1. Energy Consumption

The energy use involved in the Water Supply Companies, and the Headquarters during the Reporting Period included the consumption of electricity, petrol, diesel, and LPG. The annual energy consumption was 27,668 MWh, and the consumption intensity was 1.60 MWh/hectare, or 72.38 MWh/employee.

Type of Energy	Consumption	Consumption (in kWh)
Electricity	27,360,562 kWh	27,360,562
LPG	276 kg	3,847
Petrol	13,372 litres	118,500
Diesel	18,534 litres	185,313

1 As there was a change of property management company in October 2020, consumption of electricity in Dongshan Mall covers only that of November and December 2020, due to difficulty in obtaining previous data.

2 As there was a change of property management company in October 2020, consumption of water in Dongshan Mall covers only that of November and December 2020, due to difficulty in obtaining previous data.

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

A2.2. Water Consumption

During the Reporting Period, a total of 1.12 million m^3 of water was consumed by the Group for its operational purposes, 99% of which were consumed by the Water Supply Companies for water supply purposes. As the WSD Company ceased the water intake and treatment at its Qixinggang Water Plant and commenced water intake at government water plant in March 2020, total water consumed by the Group has been greatly reduced this year (compare to the total of 4.83 million m^3 of water was consumed last year). The overall intensity was 65.73 m^3/hectare, or 2,966.92 m^3/employee. Taihe Company sources raw water directly from the local Beijiang River and its tributary with licences and approvals from the local government. There was no issue in sourcing water fit for purpose.

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

A2.3. Energy Use Efficiency Initiatives

The Water Supply Companies, Dongshan Mall, and Headquarters proactively explore opportunities to electricity consumption reduction and equipment optimisation. The Water Supply Companies has the following energy efficiency measures:

- Enhancing efficiency of their water pumps and equipment
- Bringing in frequency inverters to adjust power supply according to the different pressure levels automatically
- Carrying out technological upgrade and regular maintenance for energy-consuming equipment and circuits to reduce energy depletion
- Setting electricity consumption an aspect for assessment
- Making energy efficiency a criterion when purchasing new equipment

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

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

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

A2.4. Water Use Efficiency Initiatives

The Water Supply Companies constitute nearly all of the Group's water consumption. Continuously effort is put in improving water efficiency within the water supply processes and reducing water loss during the distribution networks. Some initiatives in place to conserve water include:

- Adopting a more efficient and water-saving siphoning method during sludge treatment and discharge
- Collecting treated backwash water for reuse at other procedures, which amounted to 1.09 million m^3 during the Reporting Period
- Controlling the consumption, frequency and time length of backwash water depending on raw water turbidity
- Frequently searching for and repairing points of water leakage
- Constantly promoting water conservation messages within the companies and to communities

A2.5. Packaging Materials

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

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

The most significant impact of the Group's activities on the environment is its GHG emission. Following, is the potential effect of discharged processed wastewater into the water body, which may affect water quality, thus, biodiversity. Having said that, the Group's continuous effort in emitting much less than permitted by the minimum requirements as required by relevant laws and regulations has enabled it to minimise impacts caused to the environment.

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

A. ENVIRONMENTAL *(continued)*

A4. Climate Change

Climate change poses a huge threat to all businesses, and that of the Group's is not an exception. Both physical and transitional risks may be threats that the Group's operations will face. Involved in a business that heavily relies on the quality of water in rivers, Taihe Company has outlined emergency response plans in preparation for occurrences of extreme weather events or leak of fossil fuel, both of which will significantly cause an impact to the waters' quality and suitability for human consumption. The Group will keep an eye on potential risks caused by climate change, and develop measures to control and manage relevant threats properly to minimise challenges faced by its operations.

B. LABOUR PRACTICES

To run the Group's Water Supply Companies, property leasing and office operations, a large pool of employees is recruited to assist in delivering quality output for the business. Hence, employment and labour practices are big topics for the Group. Great emphasis is put onto providing employees benefits and welfare, granting them equal opportunities, and paying attention to their needs to retain talents. Additionally, the Group also makes sure the health and safety of employees are safeguarded, and that employees are constantly empowered and improved in terms of their industry knowledge. To achieve that, certain policies, drills, and trainings are regularly carried out to equip employees with necessary preparation and skills for different circumstances. The Group also strictly follows laws in providing employees a satisfactory working environment and operating with cautious practices to give customers fulfilling services.

B1. Employment

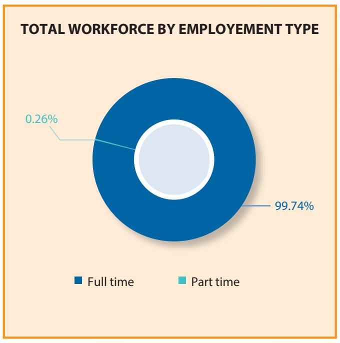
During the Reporting Period, all laws and regulations regarding compensation and dismissal, recruitment and promotion, working hours, rest periods and other benefits and welfare were complied.

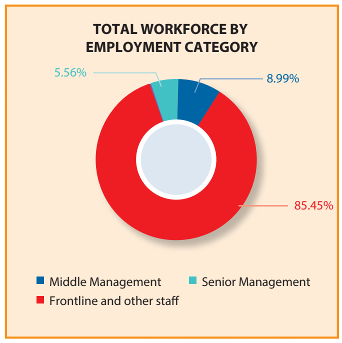
B. LABOUR PRACTICES *(continued)*

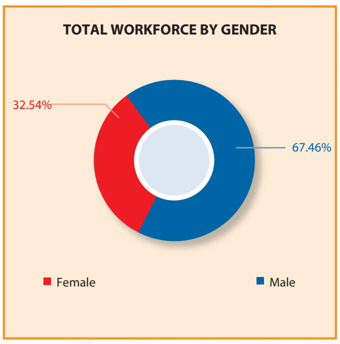
B1. Employment *(continued)*

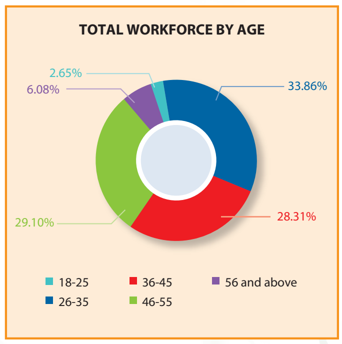
B1.1 Total Workforce

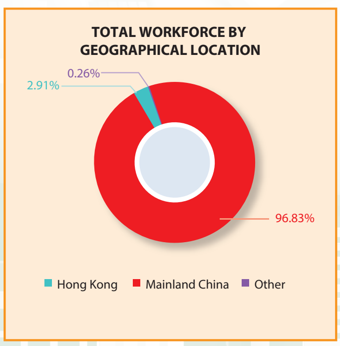
The Water Supply Companies, Dongshan Mall and Headquarters (excluding the supporting units) had a total number of 378 employees as of 31 December 2020.









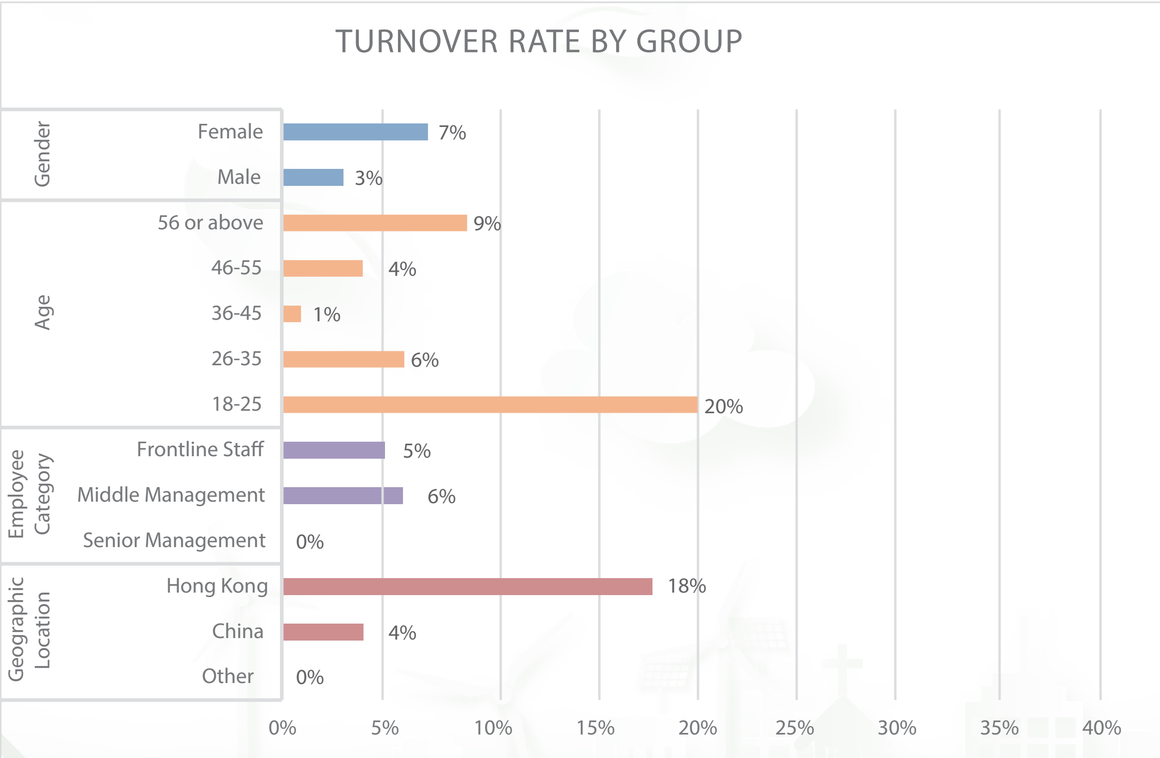


B. LABOUR PRACTICES *(continued)*

B1. Employment *(continued)*

B1.2 Turnover Rate

A total of 17 employees left the Water Supply Companies, Dongshan Mall, and Headquarters during the Reporting Period, which is a relatively low rate of 4%. All of those who left worked full time.



Remuneration and Benefits

The Group complies with all applicable employment and labour laws of the PRC and Hong Kong. Competitive remuneration, promotion opportunity, compensation and benefit packages are offered to attract and retain talents. Policies on remuneration and welfare of employees are reviewed, approved, implemented, and executed by various departments to ensure the returns provided are fairly set, based on employees' performances, duties, and market values. Employees are entitled to discretionary bonus, mandatory provident fund, compensation salary, medical insurance (with provision of free annual body check and gynaecology check-up), short term health insurance, accident insurance, directors and officers liability insurance, and the basic social welfare in Mainland China (including pension, housing fund, medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance). The Group also joined the workers' inpatient and medical assistance programme offered by the Guangdong Workers Security Benefit Association. Additional subsidies are provided to specialised workers (such as electricians, welders, fitters and laboratory technicians), night-time workers, and workers who have their regular meals delayed due to shift work. Upon the statutory holidays and leaves, various types of paid leaves including annual leave, sick leave, maternity leave, paternity leave, and compassionate leave are provided.

B. LABOUR PRACTICES *(continued)*

B1. Employment *(continued)*

B1.2 Turnover Rate (continued)

Awards and Penalty System

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

Equal Opportunity

Equal opportunities are given to employees at all stages, including recruitment, training and development, job advancement, and compensation and benefits, in accordance with the implementation method on internal competition set out by the Group. Employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws in the PRC and Hong Kong. To make the workplace more inclusive, there are accessible roads and pathways designed and built for the Group's employees with disabilities.

Employment Communication

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

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

B. LABOUR PRACTICES *(continued)*

B2. Occupational Health and Safety

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

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

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

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

B. LABOUR PRACTICES *(continued)*

B2. Occupational Health and Safety *(continued)*

COVID-19 Measures

Ever since the outbreak of the coronavirus disease, the Group had been highly cautious and closely following governmental guidelines. To monitor the most up-to-date situations of infection cases and release important information and guidelines to its employees, the Group had established a task force that identifies and avoids any risks that would threaten the health of employees. Arrangements that the taskforce had made include,

- Remote work arrangements
- Regular disinfection in offices, production areas, canteens, if applicable
- Requested employees who showed symptoms to seek medical assistance and avoid going to office
- Strengthened health surveillance measures, such as, measuring body temperatures
- Sourced and provided anti-virus supplies, such as surgical masks, sanitisers
- Monitored infection information in surrounding communities
- Recorded contact information of visitors
- Requested all personnel within the Group's sites to perform proper hand and anti-virus hygiene

B2.1 Work-related fatalities and injury

Occupational Health and Safety Data in 2020	
Work related fatality	0
Work injury cases >3 days	1
Work injury cases ≤3 days	0
Lost days due to work injury	6

B. LABOUR PRACTICES *(continued)*

B3. Development and Training

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

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

During the Reporting Period, the Water Supply Companies, Dongshan Mall and Headquarters delivered training to 97% of its employees, each receiving 44 hours of training on average.

B. LABOUR PRACTICES *(continued)*

B4. Labour Standard

In pursuance of the Labour Law of the PRC and the Employment Ordinance of the Laws of Hong Kong, there is no child nor forced labour in the Group's operation. The Group strictly abides by the guidelines of recruitment procedures in the employees' handbook. The Human Resources Department authenticates employee candidates' identity cards, educational certificates, employee registration forms and photos, and does background check prior to establishing any formal employment relationships. Candidates or employees providing false certificates are in breach of the Group's policies and can be dismissed without any compensation. No non-compliance was found during the Reporting Period.

C. OPERATIONAL PRACTICES

As the Group's works are mainly services-based, the user experience and the protection of users' data, no matter of the water supply or property leasing, are top priorities for the Group. Since the Group's operations act as providers to different communities, the management of the supply chain and services are significant to the end products of the Group. To maintain an efficient internal operation, it is necessary that briberies and dishonesties do not exist in the Group. To repay local communities, charitable acts are also performed by the Group. All operating practices of the Group followed laws and regulations and no non-compliance was found during the Reporting Period. Together with its investment in local communities, the Group hopes to establish itself as a Group that carries great corporate social responsibility.

C1. Supply Chain Management

C1.1 Suppliers by Geographical Region

The Group has an organised procurement system to ensure smooth production and operation, and to optimise allocation of resources and continuous improvement of the system. During the Reporting Period, the Group worked with 119 major suppliers, 68 of which were from different provinces in Mainland China, and the rest from Hong Kong.

C2.2 Practices Relating to Engaging Suppliers

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

The Management Committee reviews and evaluates suppliers annually to produce a list of qualified suppliers and a blacklist of substandard suppliers. Inspections are conducted to assess suppliers' licenses, storage environment, equipment, and hygiene. All items and materials procured shall meet health and safety requirements, and priority is given to energy efficient equipment when purchasing new equipment. The Group is exploring on how more environmental and safety aspects may be added into the scope of considerations for choosing suppliers.

C. OPERATIONAL PRACTICES *(continued)*

C2. Product Responsibility

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

C2.1 Water Supply Quality and Safety

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

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

As a number of chemicals, including PAC, hydrochloric acid, sodium chlorate and sodium hypochlorite, are used in the water treatment for flocculation, pH adjustment, disinfection and purification, relevant specifications and guidelines are followed carefully, and chemicals are stored and bunded properly if necessary. Input of chemicals during the treatment process is conscientiously controlled and monitored through obtained real-time data of chemical input in different treatment processes. Chemical spillage contingency plan is in place and emergency drills for chemical spillage are organised regularly. This ensures that the water supplied to citisens of the District are completely safe from substances that might jeopardise users' health.

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

C. OPERATIONAL PRACTICES *(continued)*

C2. Product Responsibility *(continued)*

C2.2 Property Safety

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

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

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

C2.3 Customer Service

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

Apart from allowing the public to understand the Group's recent plans and initiatives, to create a two-way communication, channels are also provided for end-users to voice their opinions and raise complaints. Enquiries and complaints can be raised through the government hotline, the Water Supply Companies' direct line, WeChat public accounts, suggestions collection boxes, and receptions at the plants' operation centres. The Water Supply Companies had recorded 85 requests or complaints regarding water supply, water pressure, water meters, and other relevant issues in the Reporting Period. All complaints have been followed up and resolved.

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

There is also a service quality assessment programme which aims to strengthen the overall quality management system and evaluate service quality of different service units in a more effective manner. Quantitative targets such as targets regarding the total number of complaints, percentage of user satisfaction, and percentage of replies with respect to hotline enquiries have been set to improve service performances.

C. OPERATIONAL PRACTICES *(continued)*

C2. Product Responsibility *(continued)*

C2.4 Intellectual Property ("IP")

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

C2.5 Information Security

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

By signing the confidentiality contract, employees confirm that they would not disclose any information and trade secrets. Employees undertook to use their best endeavours to prevent any unauthorised access, use, publication or disclosure of trade secret or confidential information related to the business and finance of the Group. All documents (including correspondence, lists of customers, notes, memoranda, plans, drawings and other documents of any nature), computer software, computer hardware, computer files, hard copy files, models or samples made or compiled by or delivered to employees during their employment and concerning the business, finance or affairs of any subsidiary in the Group are to and shall remain exclusively the property of the Group and shall not be removed from the premises of the Group in any way without the prior written approval of the Group. Data collected will be kept in the files room, and under no circumstances would they be handed to any third parties. Employees violating the confidentiality undertakings are subject to disciplinary actions including summary dismissal. The confidentiality contract also seeks to cover customer information. Customer information is carefully protected by a designated information security team. Access to any sensitive and sensitive and personal information is restricted to only designated personnel. Firewalls are also installed to ensure safe surfing online.

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

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

C. OPERATIONAL PRACTICES *(continued)*

C3. Anti-corruption

The Group is committed to managing all businesses without undue influence and regards honesty, integrity, and fairness as its core values. All directors and employees are required to strictly follow the Group's policy to prevent potential bribery, extortion, fraud, and money laundering. The Group also established a guideline for employees in the Procurement Department that prohibits them to obtain improper interests, rebate, or benefits from suppliers. Anti-corruption is one of the elements incorporated in the Group's training for employees.

The Group has a whistle-blowing policy for employees to raise possible improprieties. Concerns raised under the procedure will be taken seriously and the confidentiality of employees raising concerns will be respected until formal investigation starts. Thereafter, the identity of the person who has raised the concern may be divulged only in the interest of conducting a fair and thorough investigation. Upon receiving any report, the Chairman/Chief Executive or his designate has the power to conduct an initial investigating meeting and discuss the concerns raised and seek to establish the facts and further actions to be taken. In the case of any concern raised against the Chairman/Chief Executive, the employee can raise any concern with any independent non-executive Directors. The Board will be responsible for monitoring, producing, and publishing results, and undertaking periodic revisions.

The Group complies with all applicable laws on prohibiting corruption and bribery of the PRC and Hong Kong. There were no concluded legal cases regarding corrupt practices brought against the Group nor its employees during the Reporting Period.

C4. Community Investment

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

Raising Environmental and Social Awareness

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

On 15 March 2020, the Group participated in the Consumer Rights Day event organised by the local government, Consumer Council and Administration Bureau for Industry and Commerce, to raise community awareness on consumer rights and needs.

Upholding the principle of "Walking into the communities and villages", the Group has also participated in various promotional events regarding water consumption. These events include, an outdoor promotional activity, held in a public square in cooperation with the local government, for the 3.22 World Water Day 2020; promotional activities on charters of living a green lifestyle in Qingyuan; and several other educational activities, conducted in local dialects at rural villages targeted at residents, especially elderly, on drinking water safety.

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

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was investment holding and those of the principal subsidiaries are set out in note 45 to the consolidated financial statements.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2020, and an indication of likely future development in the Group's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this Annual Report.

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

Environmental policies and performance

For the year ended 31 December 2020, the Group's business operation made continuous effort in minimizing damage to the environment, conserving water resources, and ensuring quality and stable water supply to the community. No non-compliance in relation to environmental and social aspects was recorded. Engagement with stakeholders has resulted in raised concerns on key material issues, which include (i) water at source, (ii) occupational health and safety, (iii) customer data protection, (iv) customer service and (v) water supply quality and safety. These aspects had already been managed by the Group and the Group will continue to keep close communication with its stakeholders for advancing its environmental, social and governance management.

Compliance with law and regulations

The Group has ongoing review and continues to update the newly enacted laws and regulations in various countries affecting the business and operation of the Group, particularly in Hong Kong and the PRC. During the year ended 31 December 2020 and up to the date of this annual report, the Group was not aware of any non-compliance with laws and regulations that has significant impact relating to relevant law and regulations in Hong Kong and the PRC in all respects.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2020 and the state of affairs of the Company and of the Group at 31 December 2020 are set out in the consolidated financial statements on pages 74 to 160.

No interim dividend was declared and paid during the year (2019: HK$Nil).

The Board of Directors does not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (2019: HK$Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 162. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PREMIUM

The Group purchased property, plant and equipment amounting to HK$11,391,000 during the year.

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

INVESTMENT PROPERTIES

At 31 December 2020, the investment properties of the Group were revalued by independent valuers on an open market value basis at HK$686,103,000.

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

BANK AND OTHER BORROWINGS

At 31 December 2020, the Group has secured bank loan, unsecured government loan and unsecured loan from a third party amounting to HK$1,242,821,000. Details of bank and other borrowings are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 32(a) to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in note 34 to the consolidated financial statements.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

On 15 February 2019, the Company, Billion Eminence Investment Limited ("Brilliant Eminence"), and Chevalier Earth Group Limited ("Chevalier Earth") entered into the Acquisition Agreement, pursuant to which Brilliant Eminence (as vendor) has conditionally agreed to sell, and the Company (as purchaser) has conditionally agreed to purchase, the entire issued share capital of Chevalier Earth and the entire loans owing by Chevalier Earth and its subsidiaries to Brilliant Eminence and its affiliates for the total cash consideration of RMB576,000,000 (equivalent to approximately HK$673,286,400) (the "Consideration"). The purpose of the Acquisition is to acquire certain commercial properties in Guangzhou, China. Simultaneously, the Company launched the Rights Issue and the Placing to raise funding to finance the Acquisition. The Rights Issue and the Placing were subsequently approved by the independent shareholders of the Company on 23 April 2019. On completion of the Rights Issue and the Placing which took place on 18 June 2019, 1,805,909,900 Rights Shares were allotted and issued and 1,586,400,000 Untaken Shares were allotted and issued to Placees procured by the Placing Agents under the Placing. The gross proceeds raised by the Company from the Placing and the Rights Issue amount to HK$780,231,277 in aggregate, which is intended to be utilised partially for the consideration for the Acquisition.

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

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

On 3 December 2020, Qinghui, a 49%-owned subsidiary of the Group and Qinghui Shareholders entered into the Capital Contribution Agreement pursuant to which the Qinghui Shareholders agreed to increase the paid-up registered capital of Qinghui, with the additional paid-up registered capital of RMB100,000,000 (HK$117,647,000) in aggregate being contributed by Huanye, an indirect wholly-owned subsidiary of the Group and Hongshun in proportion to their respective voting rights of 49:51 in Qinghui.

As Hongshun is controlled by Ms. Zhu (an executive Director and the controller of Ever City, a substantial shareholder of the Company) and her associates, being an associate of a connected person of the Company at the issuer level) exercises 10% or more of the voting right of Qinghui (excluding any indirect interest through the Company), the Capital Contribution by Huanye to Qinghui (being a connected subsidiary) constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the Capital Contribution by Huanye is conducted on normal commercial terms and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Capital Contribution by Huanye are all less than 5%, under Rule 14A.76(2)(a) of the Listing Rules, the Capital Contribution by Huanye is exempt from circular (including independent financial advice) and independent shareholders' approval requirements but is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules. Details of the Connected transaction were set out in the Company's announcement dated 3 December 2020.

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2020.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company who held office during the year ended 31 December 2020 and as at the date of this report were:

Executive Directors:

Chen Jinyang (Chairman and Chief Executive Officer)
Zhu Fenglian
Zhang Haimei

Non-Executive Director:

Xuan Zhensheng
Chau Cheuk Wah (retired as a non-executive Director at the AGM on 29 May 2020)

Independent Non-Executive Directors:

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

EQUITY-LINKED AGREEMENTS

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

Share Options

The GEM share option scheme adopted by the Company on 12 October 2001 (the "**Old Share Option Scheme**") prior to the Company's listing in October 2001 was terminated, upon the listing of the shares of the Company being transferred from GEM to the Main Board of the Stock Exchange on 22 June 2010. After its termination, no further share option can be granted under the Old Share Option Scheme. As at the date of this report, no option remained outstanding under the Old Share Option Scheme. No option was granted, exercised, cancelled or lapsed under the Old Share Option Scheme during both the current fiscal year and last fiscal year.

The Board adopted a new share option scheme (the "**New Share Option Scheme**") at the Company's extraordinary general meeting held on 12 August 2010. The purpose of the New Share Option Scheme is to enable the Company to grant options to eligible participants including employees, proposed employees, non-executive directors, suppliers and customers of the Group or any invested entities, shareholders of any members of the Group or any invested entities, and any other participants determined by the Directors as having contributed or may contribute by way of joint ventures, business alliances or other business arrangements to the development and growth of the Group (collectively, the "**Eligible Participants**"), an incentive or rewards for their contributions to the Group. A summary of the principal terms of the New Share Option Scheme can be founded on pages 9 to 19 of the Company's circular dated 19 July 2010.

The New Share Option Scheme was adopted for a period of ten years commencing from 12 August 2010 to 11 August 2020, after which period no further options were offered or granted but the provisions of the scheme were remained in full force and effect in all other respects with regard to options granted during the life of the scheme. Offers for grant of options shall be valid for acceptance within 21 days after the date of offer, when the grantee shall pay HK$1.00 to the Company as consideration for the grant. The subscription price for shares in respect of any option granted shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option but in any case the subscription price for shares shall be at least not lower than the higher of (i) the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices of the share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the share of the Company.

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

EQUITY-LINKED AGREEMENTS *(continued)*

Share Options *(continued)*

The Scheme Mandate Limit was last refreshed at the annual general meeting of the Company held on 30 June 2015, authorising the Board to grant up to 207,044,885 options. Before 1 January 2020, no option has been granted under the New Share Option Scheme. As disclosed in the Company's announcement dated 15 April 2020, 241,242 options (the "2020 Options") were granted to eligible employees of the Group (not being connected persons of the Company) at the exercise price of HK$0.16 per share on 15 April 2020 (the "Date of Grant") under the New Share Option Scheme, and all the 2020 Options vested and were duly exercised by grantees also during the current period such that no granted option is outstanding at the year ended 31 December 2020. On 11 August 2020, the New Share Option Scheme lapsed and no option can be granted thereunder any further. The closing price of the Company's shares on the day (i.e. on 14 April 2020) immediately before the Date of Grant was HK$0.150. The fair value of the 2020 Options amounted to HK$3,000, all of which being vested, exercised and recognized in the Company's financial statements as share-based payment expenses in the current fiscal year. The fair value of the 2020 Options is measured on the Date of Grant of 15 April 2020 based on binomial option pricing model using the following key inputs and assumptions: (a) an expected volatility of 46.84% based on historical annualized volatility which is not less than one year; (b) no annual dividends being made based on historical dividend pattern in the most recent five years; and (c) a risk-free interest rate of 0.61% based on the yields of Hong Kong Exchange Fund Notes. For the purpose of the calculation of fair value, no adjustment was made for options expected to be forfeited due to the expected insignificant staff turnover and the lack of historical data. While the binomial option pricing model is regarded as a generally accepted methodology to calculate the fair value of options, it requires the input of subjective assumptions (including share price volatility) and any changes in subjective input assumptions could materially affect the fair value estimate. Therefore, the Directors are of the view that the model does have limitations and does not necessarily provide a reliable single measurement of the fair value of the share options.

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

					Number of share options						
Grantees	Date of grant	Vesting period	Exercise period	Exercised price	Outstanding at 1 January 2020	Granted during the year	Exercise during the year	Cancellation during the year	Outstanding at 31 December 2020	Market value per share at date of grant of option	Market value per share on exercise of option
Staff of the Group	15 April 2020	Fully vested on 15 April 2020	15 April 2020 to 11 August 2020	HK$0.16	–	241,242	(241,242)	–	–	HK$0.155	HK$0.13

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

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

As at 31 December 2020, the interests or short positions of the Directors and chief executives or their associates of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO")) which (i) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:–

Name of directors	Interests in ordinary shares		Total interests in ordinary shares	Total interests in underlying shares (note 1)	Aggregate interests	% of the Company's issued share
	Personal interests	Corporate interests				
Ms. Zhu Fenglian (note 1)	—	1,561,140,000	1,561,140,000	—	1,561,140,000	28.32%

Notes:

1. Ms. Zhu Fenglian is deemed to be interested in the 1,561,140,000 shares attributable to Ms. Zhu and her controlled corporation, Affluent Vast Holdings Limited ("**Affluent Vast**"), Ever City and Eastcorp International Limited ("**Eastcorp**"). For more details on the deemed interest of Ms. Zhu, Affluent Vast and Ever City, please refer to Note 1 to the section headed "Persons who have an Interest or a Short Position which is Discloseable under Divisions 2 and 3 of Part XV of the SFO and Substantial Shareholding".

2. There were no debt securities nor debentures issued by the Group at any time during the year ended 31 December 2020.

Save as disclosed above, so far as the Directors are aware as at 31 December 2020, none of the Directors or chief executives or their associates of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

The Directors confirmed that as at 31 December 2020 and for the year ended 31 December 2020:–

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

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2020, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or who have direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company were as follows:–

Long positions in the shares of the Company

Name	Type of interests	Number of shares	Approximate percentage of interests
Ever City (note 1)	Beneficial owner and interest in controlled corporation	1,561,140,000	28.32%
Ms. Zhu Fenglian (note 1)	Interest in controlled corporation	1,561,140,000	28.32%
Affluent Vast (note 1)	Interest in controlled corporation	1,561,140,000	28.32%
Eastcorp (note 1)	Beneficial owner	600,000,000	10.88%
Wang Yingqi (note 2)	Interest in controlled corporation	550,020,000	9.98%
GPE Guangzhou (note 2)	Interest in controlled corporation	550,000,000	9.98%
GPE HK (note 2)	Beneficial owner	550,000,000	9.98%

Notes:

1. Ms. Zhu, Affluent Vast and Ever City are deemed to be interested in 1,561,140,000 shares of the Company, representing 28.32% of the total issued share capital of the Company, which comprises (a) 961,140,000 shares directly held by Ever City; and (b) 600,000,000 shares held by Eastcorp. Ever City is wholly and beneficially owned by Affluent Vast. Affluent Vast is wholly and beneficially owned by Ms. Zhu. Therefore, Ever City is deemed to be a controlled corporation of Affluent Vast and Ms. Zhu. Eastcorp is wholly and beneficially owned by Ever City. Therefore, Eastcorp is deemed to be a controlled corporation of Ever City, Affluent Vast and Ms. Zhu.

2. According to the disclosure of interest ("**DI**") filings, (a) Global Pay Easy (Hongkong) Technology Limited ("**GPE HK**") was interested in 550,000,000 shares of the Company, representing 9.98% of the total issued share capital of the Company; (b) GPE HK was wholly owned by Global Pay Easy Technology Company Limited ("GPE Guangzhou"), which was in turn 85% owned by Wang Yingqi ("**Ms. Wang**") and Ms. Wang was personally interested in 20,000 shares of the Company.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at 31 December 2020, no other persons had notified the Company of any interest or short position in the shares or underlying shares of equity derivatives of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or any direct or indirect interest in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company.

MANAGEMENT SHAREHOLDERS' INTERESTS

Save as disclosed under the sections headed "Directors' and chief executives' interests or short positions in shares, underlying shares and debentures" and "Persons who have an interest or a short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholding" above, as at 31 December 2020, no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision that provides for indemnity against liability incurred by directors and chief executives of the Group is currently in force and was in force throughout the year ended 31 December 2020.

SHARE AWARD SCHEME

The Company has adopted a Share Award Scheme as an incentive scheme to recognize the contributions by Eligible Participants and to retain them and attract suitable personnel for the continuing operation, growth and development of the Group. The Share Award Scheme was adopted by the Board on 15 January 2021 and ending on 31 December 2035. No further Awards shall be granted after 31 January 2032 and no Vesting Date can be fixed beyond 31 December 2035 for Awards.

CONNECTED TRANSACTIONS

As disclosed in Note 31 to the consolidated financial statements, as at and throughout the period ending 31 December 2020, the Group had certain banking facilities which were not only secured by land charges, pledge of trade receivables, pledge of equity interest in the Group's subsidiaries and intra-group corporate guarantees, but also guaranteed by the following connected persons or associates of the Company (the "**Guarantee by CP**"), namely: New Century, Ms. Zhu Fenglian and her spouse, and the non-controlling shareholders of subsidiaries. Since the Guarantee by CP is conducted on normal commercial terms or better to the Company, no consideration is required to be paid by the Company for the Guarantee by CP and the Guarantee by CP is not secured by any assets of the Company or its subsidiaries, the Guarantee by CP is fully exempt under Rule 14A.90 from all disclosure, annual review, circular and shareholders' approval requirements of the Listing Rules.

On 3 December 2020, Qinghui, a 49%-owned subsidiary of the Group and Qinghui Shareholders entered into the Capital Contribution Agreement pursuant to which the Qinghui Shareholders agreed to increase the paid-up registered capital of Qinghui, with the additional paid-up registered capital of RMB100,000,000 (HK$117,647,000) in aggregate being contributed by Huanye, an indirect wholly-owned subsidiary of the Group and in proportion to their respective voting rights of 49:51 in Qinghui.

As Hongshun is controlled by Ms. Zhu (an executive Director and the controller of Ever City, a substantial shareholder of the Company) and her associates, being an associate of a connected person of the Company at the issuer level) exercises 10% or more of the voting right of Qinghui (excluding any indirect interest through the Company), the Capital Contribution by Huanye to Qinghui (being a connected subsidiary) constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the Capital Contribution by Huanye is conducted on normal commercial terms and the applicable percentage ratios (as defined in the Listing Rules) in respect of the Capital Contribution by Huanye are all less than 5%, under Rule 14A.76(2)(a) of the Listing Rules, the Capital Contribution by Huanye is exempt from circular (including independent financial advice) and independent shareholders' approval requirements but is only subject to reporting and announcement requirements under Chapter 14A of the Listing Rules. Details of the Connected transaction were set out in the Company's announcement dated 3 December 2020.

COMPETITION AND CONFLICT OF INTERESTS

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

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 5% of the total sales for the year and sales to the largest customer included therein amounted to approximately 1%. Purchases from the Group's five largest suppliers accounted for approximately 9% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 6%.

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

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

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 24 to 35 of the Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2020. The Audit Committee has also reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control, risk management and financial reporting matters.

AUDITOR

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

On behalf of the Board

Chen Jinyang
Chairman

Hong Kong, 31 March 2021

PKF

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSAL TECHNOLOGIES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Universal Technologies Holdings Limited and its subsidiaries (together the "Group") set out on pages 74 to 160, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
<u>**Impairment assessment of intangible assets**</u> Refer to note 18 to the consolidated financial statements. The Group has intangible assets of HK$294,892,000 relating to the water supply business segments. No impairment loss has been made over intangible assets. Given the nature of these assets, the assessment of impairment involves significant estimation uncertainty, subjective assumptions and application of significant judgement. In the annual impairment review, management has concluded that no impairment loss in respect of the intangible assets is considered necessary. This conclusion was based on a value-in-use model that required significant management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth.	Our audit procedures in relation to management's impairment assessment included: — Obtain an understanding of the Group's procedures and method of estimation, including any control activities applied, significant assumptions made and management's assessment of estimation uncertainty; — Re-calculate the estimation made by the management; — Review outcome of estimation made in prior period and management's judgements and decisions for possible management bias; — Evaluate whether the method of estimation and assumptions made are appropriate; — Test the data used by the management in the estimation; — Review subsequent events relevant to the estimation; — Evaluate the disclosures made by management; and — Evaluate the sensitivity analysis performed by the management on the key assumptions used in the impairment assessment and assess the potential impacts of a range of possible outcomes.

Valuation of investment properties

Refer to note 15 to the consolidated financial statements.

The Group holds a portfolio of investment properties in Hong Kong and the People's Republic of China (the "PRC") with an aggregate fair value of HK$686,103,000 which accounted for 23% of the Group's total assets at 31 December 2020.

The fair values of investment properties at 31 December 2020 were assessed by the directors based on independent valuations prepared by qualified external property valuer. The fair value gain on investment properties of HK$48,000 recorded in the consolidated statement of profit or loss represented 0.1% of the Group's loss before income tax for the year ended 31 December 2020.

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

— Evaluate the external valuer' competence, capabilities and objectivity;

— Obtain an understanding of the valuation process and techniques adopted by the external valuer to assess if they are consistent with industry norms; and

— Obtain the valuation reports and discuss with the external valuer to assess the reasonableness of the significant unobservable inputs and the accuracy of the source data used by the valuer and check, on a sample basis, the accuracy and relevance of the input data used, including the capitalisation rates, market rent and market price, to the recent renewal of lease or sale transactions of the Group and of the market.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PKF Hong Kong Limited
Certified Public Accountants
Hong Kong, 31 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Note	**2020** **HK$'000**	2019 HK$'000
Revenue	4	**344,748**	303,598
Cost of sales/services rendered		**(293,214)**	(237,661)
Gross profit		**51,534**	65,937
Other income and gains	5	**16,032**	9,946
Impairment loss on goodwill	19	**–**	(99,037)
General and administrative expenses		**(87,902)**	(65,772)
Share of loss of a joint venture		**(106)**	–
Loss from operations		**(20,442)**	(88,926)
Finance costs	6(a)	**(38,793)**	(24,260)
Loss before income tax	6	**(59,235)**	(113,186)
Income tax expense	8	**(12,023)**	(3,516)
Loss for the year		**(71,258)**	(116,702)
Attributable to: –			
Shareholders of the Company		**(36,337)**	(116,634)
Non-controlling interests		**(34,921)**	(68)
Loss for the year		**(71,258)**	(116,702)
Loss per share (in cents)	11		
– Basic		**(0.66)**	(2.96)
– Diluted		**(0.66)**	(2.96)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
Loss for the year	**(71,258)**	(116,702)
Other comprehensive income/(loss):–		
Items that may be reclassified subsequently to profit or loss:–		
Exchange differences arising on translation of financial statements of overseas operations	**58,991**	(2,997)
Release of exchange differences upon disposal of a subsidiary	**65**	—
Other comprehensive income/(loss) for the year, net of tax	**59,056**	(2,997)
Total comprehensive loss for the year	**(12,202)**	(119,699)
Total comprehensive income/(loss) attributable to:–		
Shareholders of the Company	**16,713**	(119,256)
Non-controlling interests	**(28,915)**	(443)
	(12,202)	(119,699)

Consolidated Statement of Financial Position

At 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**446,589**	471,050
Prepaid land lease premium	14	**25,996**	28,097
Investment properties	15	**686,103**	691,076
Right-of-use assets	16	**5,605**	2,484
Interest in a joint venture	17	**259,789**	–
Intangible assets	18	**294,892**	327,497
Goodwill	19	**–**	–
Deposit paid for acquisition of property, plant and equipment	20	**–**	12,641
Deferred tax assets	9(a)	**2,047**	1,654
		1,721,021	1,534,499
CURRENT ASSETS			
Inventories	21	**16,085**	28,280
Debtors	22	**47,787**	28,335
Deposits, prepayments and other receivables	23	**9,712**	10,952
Fixed deposits		**143,614**	248,754
Cash and bank balances	24	**999,061**	484,707
		1,216,259	801,028
DEDUCT:			
CURRENT LIABILITIES			
Bank and other borrowings	31	**40,362**	36,662
Trade payables	25	**121,862**	32,886
Payable to merchants	26	**3,011**	3,011
Deposits received, sundry creditors and accruals	27	**113,274**	185,997
Contract liabilities	28	**25,981**	43,566
Lease liabilities	29	**2,728**	2,519
Amount due to a related company	30	**47**	45
Tax payable		**11,967**	5,200
		319,232	309,886
NET CURRENT ASSETS		**897,027**	491,142

Consolidated Statement of Financial Position

At 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,618,048**	2,025,641
DEDUCT:			
NON-CURRENT LIABILITIES			
Bank and other borrowings	31	**1,202,459**	645,004
Lease liabilities	29	**2,896**	28
Deferred tax liabilities	9(a)	**52,161**	52,876
		1,257,516	697,908
NET ASSETS		**1,360,532**	1,327,733
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	32(a)	**55,130**	55,128
Reserves	34	**1,091,009**	1,074,257
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**1,146,139**	1,129,385
NON-CONTROLLING INTERESTS		**214,393**	198,348
TOTAL EQUITY		**1,360,532**	1,327,733

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 31 MARCH 2021

ZHU FENGLIAN
DIRECTOR

CHEN JINYANG
DIRECTOR

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		**(59,235)**	(113,186)
Adjustments for:-			
Interest on bank deposits		**(2,956)**	(6,461)
Interest expenses on bank and other borrowings		**38,572**	23,780
Interest expenses on lease liabilities		**112**	192
Depreciation of property, plant and equipment		**42,860**	40,786
Depreciation of right-of-use assets		**2,926**	2,481
Amortisation of prepaid land lease premium		**742**	809
Amortisation of intangible assets		**46,006**	48,531
Loss on disposal of property, plant and equipment		**7,224**	—
Gain on disposal of a subsidiary		**(4,584)**	—
Gain on disposal of investment properties		**(4,273)**	—
Net increase in fair value of investment properties		**(48)**	(1,596)
Impairment loss on debtors		**308**	414
Impairment loss on land held for future development for sale		**—**	3,268
Impairment loss on goodwill		**—**	99,037
Impairment loss on property, plant and equipment		**6,025**	—
Impairment loss on other receivables		**47**	18
Deposit paid for acquisition of property, plant and equipment written-off		**12,719**	—
Share of loss of a joint venture		**106**	—
Operating profit before working capital changes		**86,551**	98,073
Changes in working capital:			
Inventories		**13,506**	(7,544)
Debtors		**(17,194)**	(5,047)
Deposits, prepayments and other receivables		**1,653**	(3,412)
Trade payables		**73,446**	22,815
Deposits received, sundry creditors and accruals		**(8,831)**	21,824
Contract liabilities		**(19,217)**	20,910
Cash from operations		**129,914**	147,619
Bank interest received		**2,952**	6,462
Tax paid		**(6,607)**	(12,405)
NET CASH FROM OPERATING ACTIVITIES		**126,259**	141,676

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to a joint venture		**(256,341)**	—
Capital injection into a joint venture		**(3,560)**	—
Payments to acquire property, plant and equipment		**(24,851)**	(48,827)
Proceeds from disposal of investment properties		**49,144**	—
Payments to acquire intangible assets		**(247)**	(27,709)
Net cash outflow arising on acquisition of assets through acquisition of subsidiaries	35	**(64,375)**	(572,386)
Net cash inflow arising on disposal of a subsidiary	36	**5,824**	—
NET CASH USED IN INVESTING ACTIVITIES		**(294,406)**	(648,922)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from a third party		**557,779**	—
Capital contribution from non-controlling shareholder		**59,496**	—
Proceeds from new bank loans		**—**	294,998
Other interest paid		**(37,529)**	(32,256)
Repayment of bank loans		**(36,763)**	(53,648)
Capital element of lease rentals paid		**(2,970)**	(2,419)
Interest element of lease rentals paid		**(112)**	(192)
Dividend paid to non-controlling shareholder of a subsidiary		**(13,191)**	(15,624)
Proceeds from issuing shares		**41**	780,231
Shares issuing expenses		**—**	(12,238)
NET CASH FROM FINANCING ACTIVITIES		**526,751**	958,852
NET INCREASE IN CASH AND CASH EQUIVALENTS		**358,604**	451,606
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**50,610**	(6,813)
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY		**733,461**	288,668
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER		**1,142,675**	733,461
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**999,061**	484,707
Fixed deposits		**143,614**	248,754
		1,142,675	733,461

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to shareholders of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Share options reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1.1.2019	21,205	513,344	481	1,093	10,754	15,552	1,599	18,299	(101,679)	480,648	214,415	695,063
Rights issue	18,059	397,300	–	–	–	–	–	–	–	415,359	–	415,359
Placing of new shares	15,864	349,008	–	–	–	–	–	–	–	364,872	–	364,872
Shares issuing expenses	–	(12,238)	–	–	–	–	–	–	–	(12,238)	–	(12,238)
Cancellation of share options	–	–	–	–	–	–	(1,599)	–	1,599	–	–	–
Dividend paid to non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(15,624)	(15,624)
Total comprehensive loss for the year	–	–	–	–	–	(2,622)	–	–	(116,634)	(119,256)	(443)	(119,699)
Transferred to statutory reserve	–	–	–	–	–	–	–	3,345	(3,345)	–	–	–
At 31.12.2019 and 1.1.2020	55,128	1,247,414	481	1,093	10,754	12,930	–	21,644	(220,059)	1,129,385	198,348	1,327,733
Capital contribution from non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	59,496	59,496
Share-based payments	–	–	–	–	–	–	3	–	–	3	–	3
Shares issued under share option scheme	2	39	–	–	–	–	(3)	–	–	38	–	38
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,345)	(1,345)
Dividend paid to non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	(13,191)	(13,191)
Total comprehensive loss for the year	–	–	–	–	–	53,050	–	–	(36,337)	16,713	(28,915)	(12,202)
Transferred to statutory reserve	–	–	–	–	–	–	–	3,593	(3,593)	–	–	–
At 31.12.2020	55,130	1,247,453	481	1,093	10,754	65,980	–	25,237	(259,989)	1,146,139	214,393	1,360,532

1. GENERAL INFORMATION

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Application of new and amendments to HKFRSs

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

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

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKFRS 16	COVID-19-Related Rent Concession (early adopted)
Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's consolidated financial statements for the current and prior years.

(c) Measurement basis

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

(d) Basis of consolidation

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

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

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

(e) Subsidiaries

Subsidiaries are entities controlled by the Group.

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

(f) Investment in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, the consolidated statement of profit or loss and the consolidated statement of comprehensive income includes the Group's share of the post-acquisition results of the joint venture and the consolidated statement of financial position includes the Group's share of the net assets of the joint venture, as reduced by any identified impairment losses. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

When the Group ceases to have 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.

(g) Segment reporting

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Foreign currency translation

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

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

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

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

(i) Property, plant and equipment and depreciation

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Leasehold land	— unexpired term of the lease
Leasehold buildings	— 15 years – 47 years
Leasehold improvements	— Shorter of 5 years and the unexpired term of the lease
Plant and machinery	— 5 years – 20 years
Office equipment, computer and other equipment	— 5 years
Furniture and fixtures	— 3 years – 5 years
Motor vehicles	— 3 years – 5 years
Water pipelines	— 15 years – 20 years
Right-of-use assets – Leased properties	— Remaining lease term from 1 January 2019 on a straight-line basis

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

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

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

(j) Prepaid land lease payments

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Leases

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

As a lessee

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Leases *(continued)*

As a lessee (continued)

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

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

As a lessor

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Investment property

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Intangible assets

Rights to operate water supply plants in the PRC under service concession arrangement

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

(n) Goodwill

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

(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 financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

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

The expected cash shortfalls are discounted using the following discount rate where the effect is material:-

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

— variable financial assets: current effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

ECLs are measured on either the following bases:-

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

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

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

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

Significant increases in credit risk

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

Evidence that a financial asset is credit-impaired includes the following observable events:-

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

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

Written-off policy

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

ii. Impairment of other non-current assets

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

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

– Water supply and related services

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

– Property development

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Service concession arrangements

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

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

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

The Group recognises the consideration received or receivable in exchange for the construction services rendered as an intangible asset (note 18) as the Group receives a right to charge users of the water supply service.

Service concession arrangements are accounted for as follows if:–

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

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

The Group's rights over the infrastructure

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Service concession arrangements *(continued)*

Consideration received or receivable by the Group for the construction services

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

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

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

Construction or upgrade services

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

Operating services

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Construction contracts

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

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

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

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

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

(s) Trade and other receivables

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

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

(t) Government grants

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Cash equivalents

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

(v) Trade and other payables

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

(w) Financial liabilities

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

(x) Interest-bearing borrowings and borrowing costs

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

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Share capital

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Income tax

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Income tax *(continued)*

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

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

(aa) Employee benefits

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ab) Provisions and contingent liabilities

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

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

(ac) Revenue and other income

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

Revenue is recognised when control over a service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excluded value added tax or other sales tax and is after deduction of any trade discounts.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

(iii) Revenue from long-term construction contracts is recognised in accordance with accounting policy as set out in note 2(r) to the consolidated financial statements.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ad) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ae) HKFRSs in issue but not yet effective

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 17, Insurance Contracts and the related amendments	1 January 2023
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 16, Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts – Costs of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs, Annual Improvements to HKFRSs 2018 – 2020	1 January 2022

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Inventories

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

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

(ii) Depreciation

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

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

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

(iii) Estimation of fair value of investment properties

Investment properties were revalued at 31 December 2020 based on the appraised market value by independent valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. The carrying amount of investment properties at 31 December 2020 was HK$686,103,000 (2019: HK$691,076,000).

(iv) PRC enterprise income tax and deferred tax

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

(v) Construction contracts

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

4. REVENUE

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

	2020 **HK$'000**	2019 HK$'000
Revenue from contracts with customers		
Water supply and related services income	**306,146**	262,795
Construction services of infrastructure under concession arrangement (note)	**(239)**	27,349
Revenue from other sources		
Rental and building management service income	**38,841**	13,454
	344,748	303,598

Note:

The amount represents revenue recognised during the construction stage of the service concession period. During the year ended 31 December 2020, changes of estimation of HK$486,000 (2019: HK$721,000) were made when the Group finalised the construction costs with sub-contractors.

Disaggregation of revenue from contracts with customers and other sources by the timing of revenue recognition and by geographic markets is disclosed in note 43 to the consolidated financial statements.

5. OTHER INCOME AND GAINS

	2020 HK$'000	2019 HK$'000
Interest on bank deposits	**2,956**	6,461
Government subsidy	**237**	119
Net increase in fair value of investment properties	**48**	1,596
Gain on disposal of a subsidiary – Note 36	**4,584**	—
Gain on disposal of investment properties	**4,273**	—
Exchange gain	**2,433**	1,343
Others	**1,501**	427
	16,032	9,946

6. LOSS BEFORE INCOME TAX

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

(a) Finance costs

	2020 HK$'000	2019 HK$'000
Interest on bank loans	**37,529**	32,256
Less: interest capitalised included in property, plant and equipment and other intangible assets (note)	—	(8,476)
Interest on lease liabilities	**112**	192
Interest on loan from a third party	**1,043**	—
Bank charges	**109**	288
	38,793	24,260

Note:

The capitalisation rate was nil% (2019: ranged from 5.07% to 5.53%).

6. LOSS BEFORE INCOME TAX *(continued)*

(b) Other items

	2020 HK$'000	2019 HK$'000
Auditor's remuneration		
— Audit services	**1,135**	1,151
— Other services	**516**	783
	1,651	1,934
Cost of inventories sold	**4,622**	5,376
Staff costs (including directors' remuneration)		
— Salaries and other benefits	**47,941**	45,274
— Pension scheme contributions	**2,174**	5,507
— Share-based payments	**3**	—
	50,118	50,781
Depreciation of property, plant and equipment	**42,860**	40,786
Depreciation of right-of-use assets	**2,926**	2,481
Impairment loss on debtors	**308**	414
Impairment loss on land held for future development for sales	**—**	3,268
Impairment loss on other receivables	**47**	18
Impairment loss on property, plant and equipment	**6,025**	—
Deposit paid for acquisition of property, plant and equipment written-off	**12,719**	—
Amortisation of intangible assets	**46,006**	48,531
Amortisation of prepaid land lease premium	**742**	809
Short-term lease expenses	**234**	496
Low value lease expenses	**16**	5
Loss on disposal of property, plant and equipment	**7,224**	—
Rental income less direct outgoings of HK$9,502,000 (2019: HK$4,622,000)	**(29,212)**	(8,832)

7. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors

Directors' remuneration is as follows:–

Name of director	Year ended 31 December 2020					
	Fees HK$'000	Salaries, allowances and other benefits in kind HK$'000 (note i)	Pension scheme contributions HK$'000	Sub-total HK$'000	Share-based payment HK$'000	Total HK$'000
Mr. Chen Jinyang	60	2,096	32	2,188	—	2,188
Dr. Cheung Wai Bun, Charles, *J.P.*	360	—	—	360	—	360
Mr. Chau Cheuk Wah (note ii)	248	—	—	248	—	248
Mr. Chao Pao Shu, George	240	—	—	240	—	240
Mr. David Tsoi	240	—	—	240	—	240
Ms. Zhang Haimei	60	1,560	—	1,620	—	1,620
Ms. Zhu Fenglian	60	1,560	—	1,620	—	1,620
Mr. Xuan Zhensheng	600	50	—	650	—	650
	1,868	5,266	32	7,166	—	7,166

Name of director	Year ended 31 December 2019					
	Fees HK$'000	Salaries, allowances and other benefits in kind HK$'000 (note i)	Pension scheme contributions HK$'000	Sub-total HK$'000	Share-based payment HK$'000	Total HK$'000
Mr. Chen Jinyang	60	2,096	61	2,217	—	2,217
Dr. Cheung Wai Bun, Charles, *J.P.*	360	—	—	360	—	360
Mr. Chau Cheuk Wah	371	905	9	1,285	—	1,285
Mr. Chao Pao Shu, George	240	—	—	240	—	240
Mr. David Tsoi	240	—	—	240	—	240
Ms. Zhang Haimei	60	1,560	—	1,620	—	1,620
Ms. Zhu Fenglian	60	1,560	—	1,620	—	1,620
Mr. Xuan Zhensheng	523	—	—	523	—	523
	1,914	6,121	70	8,105	—	8,105

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

(a) Directors *(continued)*

Notes :–

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

ii. Retired on 29 May 2020.

No directors waived any emolument during the year.

(b) Five highest paid individuals

Among the five highest paid individuals of the Group, of which three (2019: four) are directors of the Company and the details of their remuneration have already been disclosed above.

The emoluments and designated band of the remaining two (2019: one) highest paid individual were as follows:–

	2020 **HK$'000**	2019 HK$'000
Salaries, allowances and other benefits in kind	**2,000**	964
Pension scheme contributions	**18**	—
	2,018	964

	2020	2019
HK$		
Nil to 1,000,000	**1**	1
1,000,001 to 1,500,000	**1**	—
	2	1

During the year, no share option (2019: Nil) was granted to the above highest paid employees in respect of their services to the Group.

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

8. INCOME TAX EXPENSE

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

The Company's subsidiaries operating in the PRC are subject to enterprise income tax at 25% (2019: 25%).

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

	2020 **HK$'000**	2019 HK$'000
Current tax:		
Current year	**13,160**	12,166
Under-provision in respect of previous years	**(16)**	—
	13,144	12,166
Deferred taxation (Note 9(a)):		
Current year	**(1,121)**	(8,650)
	12,023	3,516

8. INCOME TAX EXPENSE *(continued)*

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

2020	**HK HK$'000**	**PRC HK$'000**	**AUS HK$'000**	**Total HK$'000**
Loss before income tax	**(11,430)**	**(47,695)**	**(110)**	**(59,235)**
Applicable tax rate (%)	**16.5**	**25**	**30**	**N/A**
Tax on loss before income tax, calculated at the applicable tax rate	**(1,886)**	**(11,923)**	**(33)**	**(13,842)**
Tax effect of non-deductible expenses in determining taxable profit	**1,155**	**23,026**	**—**	**24,181**
Tax effect of non-taxable income in determining taxable profit	**(3,509)**	**(1,405)**	**—**	**(4,914)**
Tax effect of unrecognised decelerated depreciation allowance	**(11)**	**—**	**—**	**(11)**
Tax effect of unrecognised tax loss	**4,251**	**3,461**	**33**	**7,745**
Others	**—**	**(1,120)**	**—**	**(1,120)**
Over-provision in respect of previous year	**—**	**(16)**	**—**	**(16)**
Income tax expense	**—**	**12,023**	**—**	**12,023**

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

9. DEFERRED TAXATION

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

	Provision HK$'000	Impairment loss on debtors HK$'000	Accelerated depreciation allowances of property, plant and equipment and revaluation of investment properties HK$'000	Temporary differences on intangible assets recognised under service concession arrangement HK$'000	Total HK$'000
At 1.1.2019	—	266	(41,523)	(18,928)	(60,185)
Credited/(charged) to profit or loss – Note 8(b)	4,240	92	(758)	5,076	8,650
Exchange adjustments	(63)	(6)	277	105	313
At 31.12.2019 and 1.1.2020	4,177	352	(42,004)	(13,747)	(51,222)
Credited/(charged) to profit or loss – Note 8(b)	(1,089)	40	(2,507)	4,677	1,121
Disposal of a subsidiary – Note 36	—	—	771	—	771
Exchange adjustments	198	24	(911)	(95)	(784)
At 31.12.2020	**3,286**	**416**	**(44,651)**	**(9,165)**	**(50,114)**

Represented by:–

	2020 HK$'000	2019 HK$'000
Deferred tax assets	**2,047**	1,654
Deferred tax liabilities	**(52,161)**	(52,876)
	(50,114)	(51,222)

9. DEFERRED TAXATION *(continued)*

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

	2020 **HK$'000**	2019 HK$'000
Deductible temporary differences – note (i)		
Decelerated tax allowances	**1,136**	1,173
Unutilised tax losses	**141,988**	154,861
	143,124	156,034
Taxable temporary difference – note (ii)		
Accelerated tax allowances	**(250)**	(218)
	142,874	155,816

Notes:–

(i) Deductible temporary differences have not been recognised in these consolidated financial statements owing to the absence of objective evidence in respect of availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary difference. The unutilised tax losses accumulated in Hong Kong and Australia amounted to HK$62,642,000 (2019: HK$88,428,000) and HK$3,407,000 (2019: HK$3,297,000) respectively can be carried forward indefinitely and the unutilised tax losses accumulated in the PRC amounted to HK$75,939,000 (2019: HK$63,136,000) can be carried forward for five years following the year when the losses were incurred.

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

(c) As at 31 December 2020, temporary difference relating to the undistributed profits of the Company's subsidiaries in the PRC was RMB92,152,000 (equivalent to approximately HK$109,363,000) (2019: RMB87,015,000 (equivalent to approximately HK$97,250,000)). The related deferred tax liabilities of approximately HK$5,468,000 (2019: HK$4,863,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of the subsidiaries and the directors have determined that these retained profits are not likely to be distributed in the foreseeable future.

10. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2020 (2019: Nil).

11. LOSS PER SHARE

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

	2020	2019
	HK$'000	HK$'000
Loss		
Loss for the year attributable to shareholders of the Company	**(36,337)**	(116,634)

	2020	2019
Number of shares:		
Weighted average number of ordinary shares in issue for the purpose of calculation of basic loss per share	**5,512,921,563**	3,944,031,565

The diluted loss per share is equal to the basic loss per share for the years ended 31 December 2020 and 2019 as there was no dilutive potential ordinary share in issue.

12. RETIREMENT BENEFIT COSTS

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

The Group's contribution to such scheme for the year ended 31 December 2020 amounted to HK$163,000 (2019: HK$182,000).

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

The Group's contribution to the state-sponsored retirement plan for the year ended 31 December 2020 amounted to HK$2,011,000 (2019: HK$5,325,000).

13. PROPERTY, PLANT AND EQUIPMENT

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

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

	Properties held under medium-term lease HK$'000	Water pipelines HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Office equipment, computer and other equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
For the year ended 31.12.2020									
Opening net book value	90,734	303,345	9,288	655	1,648	15	1,425	63,940	471,050
Exchange adjustments	2,961	16,476	535	21	183	–	14	1,736	21,926
Additions	–	476	786	51	1,845	–	–	8,233	11,391
Impairment loss	(3,560)	(440)	(1,830)	–	(195)	–	–	–	(6,025)
Disposals	–	–	–	–	(4)	–	–	(7,220)	(7,224)
Disposal of a subsidiary – Note 36	(1,669)	–	–	–	–	–	–	–	(1,669)
Transfer from CIP	37,841	1,888	1,413	–	–	–	–	(41,142)	–
Depreciation	(11,353)	(28,843)	(1,099)	(400)	(987)	(9)	(169)	–	(42,860)
Closing net book value	114,954	292,902	9,093	327	2,490	6	1,270	25,547	446,589
At 31.12.2020									
Cost	158,376	434,227	18,429	5,312	6,304	431	4,124	25,547	652,750
Aggregate depreciation	(39,665)	(140,861)	(7,405)	(4,985)	(3,608)	(425)	(2,854)	–	(199,803)
Aggregate impairment loss	(3,757)	(464)	(1,931)	–	(206)	–	–	–	(6,358)
Net book value	114,954	292,902	9,093	327	2,490	6	1,270	25,547	446,589

The Group's properties are situated in:–

	2020 HK$'000	2019 HK$'000
Hong Kong	**4,135**	4,297
The PRC	**110,819**	86,437
	114,954	90,734

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

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

As at 31 December 2020, the Group's buildings and structure with a net carrying amount of approximately HK$961,000 (2019: HK$997,000) was in the process of obtaining the construction plan permits, construction commencement permits and construction completion reports. These structures have erected on land for which the relevant land use right certificates have not been obtained by the Group. Based on the legal opinion from the Group's legal advisor, who is a registered law firm in the PRC, the directors of the Group consider that the risk for the structure will be demolished is relatively low and there is no legal obstacle for the Group to obtain the relevant certificates and permits mentioned above. In accordance with the relevant regulations, the directors of the Group estimated the fine of approximately HK$69,000 (2019: HK$65,000) and had made a provision accordingly.

As at 31 December 2020, the Group's construction in progress with a net carrying amount of approximately HK$24,000 (2019: HK$22,000), and its water pipeline with a net carrying amount of approximately HK$137,000 (2019: HK$138,000) was in the process of obtaining the construction plan permits. Based on the legal opinion from the Group's legal advisor, who is a registered law firm in the PRC, the directors of the Group consider that the risks for the structure will be demolished or that the Group will be punished for non-compliance are relatively low and there is no legal obstacle for the Group to obtain the relevant permits mentioned above.

14. PREPAID LAND LEASE PREMIUM

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

	2020 **HK$'000**	2019 HK$'000
Opening net book value	**28,097**	29,263
Disposal of a subsidiary – Note 36	**(2,366)**	—
Exchange adjustments	**1,007**	(357)
Amortisation of prepaid land lease premium	**(742)**	(809)
Closing net book value	**25,996**	28,097

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

15. INVESTMENT PROPERTIES

	HK$'000
At 1.1.2019	46,599
Net increase in fair value recognised in the consolidated statement of profit or loss	1,596
Acquisition during the year – Note 35	635,985
Exchange adjustments	6,896
At 31.12.2019 and 1.1.2020	691,076
Net increase in fair value recognised in the consolidated statement of profit or loss	48
Disposal of a subsidiary – Note 36	(392)
Disposal during the year	(44,871)
Exchange adjustments	40,242
At 31.12.2020	**686,103**

Notes :–

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

(b) The Group's investment properties were revalued at 31 December 2020. The valuation was carried out by an independent firm of surveyors, Graval Consulting Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. Management had discussed with the surveyors on the valuation assumptions and valuation results when the valuation was performed at the end of the reporting period.

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

15. INVESTMENT PROPERTIES *(continued)*

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

	Valuation techniques	Unobservable input	Range	Weighted average
Residential properties in Shanghai City, the PRC	Market comparison approach	Premium (discount) on quality of the buildings	-5% to 0%	-0.83%
Industrial properties in Qingyuan City, Guangdong Province, the PRC	Market comparison approach and depreciated replacement cost approach	Premium (discount) on the location of land Premium (discount) on the quality of the buildings and considered of depreciation	0% to 5%	0% to 2.5%
Commercial properties in Qingyuan City, Guangdong Province, the PRC	Market comparison approach	Premium (discount) on quality of the buildings	-5% to 0%	-1.67%
Commercial properties in Guangzhou City, Guangdong Province, the PRC	Income capitalisation approach	Prevailing market rents	RMB36 to RMB1,544 per square meter per month	RMB172 square meter per month
		Capitalisation rates	4.75%	4.75%

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

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

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

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

16. RIGHT-OF-USE ASSETS

	Leased properties HK$'000
Cost:–	
At 1.1.2019	4,966
Exchange adjustment	(2)
At 31.12.2019 and 1.1.2020	4,964
Additions	5,992
Expiry of lease arrangements	(4,906)
Exchange adjustment	68
At 31.12.2020	**6,118**
Aggregate depreciation:–	
At 1.1.2019	–
Charge for the year	2,481
Exchange adjustment	(1)
At 31.12.2019 and 1.1.2020	2,480
Charge for the year	2,926
Expiry of lease arrangements	(4,906)
Exchange adjustment	13
At 31.12.2020	**513**
Net book value:–	
At 31.12.2020	**5,605**
At 31.12.2019	2,484

The Group has entered into lease agreements to obtain the right to use properties as its office premises and as a result incurred lease liabilities (Note 29). The leases typically run for an initial period of two to five years.

In addition to the above, the Group has right-of-use assets related to property interests of which the Group is the registered owner. They are included in "property, plant and equipment", "prepaid land lease premium" and "investment properties", details of which are set out in notes 13, 14 and 15 to the consolidated financial statements. The aggregate depreciation of right-of-use assets is HK$15,021,000 (2019: HK$10,621,000) for the year ended 31 December 2020.

17. INTEREST IN A JOINT VENTURE

	2020 HK$'000	2019 HK$'000
Unlisted equity, at cost	3,560	–
Share of post-acquisition loss and reserves	(112)	–
Amount due from a joint venture	256,341	–
	259,789	–

The amount due from a joint venture is unsecured, interest-free and repayable on demand. In the opinion of the directors, the balance is unlikely to be repaid in the foreseeable future and is considered as part of the Group's net investment in the joint venture.

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares	Place of establishment and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
東莞市偉騏置業投資有限公司	Registered capital of RMB 10,000,000	PRC/ Mainland China	30	(note)	30	Land auctions and property development

Note: The joint venture is jointly controlled by the Group and other shareholder by virtue of contractual arrangements among shareholders which require unanimous consent from all shareholders on certain key corporate matters. Therefore, it is classified as a joint venture of the Group.

17. INTEREST IN A JOINT VENTURE *(continued)*

The following table illustrates the summarised financial information in respect of the joint venture adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2020 HK$'000
Cash and cash equivalents	6,998
Other current assets	856,594
Current assets	863,592
Current liabilities	854,473
Net assets	9,119
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	30%
Group's share of net assets of the joint venture	2,736
Goodwill	712
Carrying amount of the investment	3,448
Revenue	—
Interest income	78
Operating expenses	(431)
Income tax expense	—
Loss for the year	(353)
Total comprehensive loss for the year	(373)

18. INTANGIBLE ASSETS

	(Note (a)) Other intangible asset HK$'000
At 1.1.2019	
Cost	428,226
Accumulated amortisation	(73,182)
Accumulated impairment loss	(1,343)
Net book value	353,701
For the year ended 31.12.2019	
Opening net book value	353,701
Additions	28,069
Adjustments – Note 18(c)	(721)
Amortisation	(48,531)
Exchange adjustments	(5,021)
Closing net book value	327,497
At 31.12.2019	
Cost	449,075
Accumulated amortisation	(120,259)
Accumulated impairment loss	(1,319)
Net book value	327,497
For the year ended 31.12.2020	
Opening net book value	**327,497**
Additions	**247**
Adjustments – Note 18(c)	**(486)**
Amortisation	**(46,006)**
Exchange adjustments	**13,640**
Closing net book value	**294,892**
At 31.12.2020	
Cost	**471,154**
Accumulated amortisation	**(174,862)**
Accumulated impairment loss	**(1,400)**
Net book value	**294,892**

18. INTANGIBLE ASSETS *(continued)*

Notes : –

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

(b) As at 31 December 2020, land use right held by the Group under service concession arrangement with a net carrying amount of RMB2,375,000 (equivalent to approximately HK$2,671,000) (2019: RMB2,771,000 (equivalent to approximately HK$3,097,000)) was pledged to secure the Group's bank and other borrowings (note 31).

(c) The fair values of construction services provided pursuant to the concession arrangement are subject to management's estimation on the values of services sub-contracted to third parties. During the year ended 31 December 2020, changes of estimation of HK$486,000 (2019: HK$721,000) were made when the Group finalised the construction costs with sub-contractors.

19. GOODWILL AND IMPAIRMENT ASSESSMENT

	HK$'000
Cost:–	
At 1.1.2019, 1.1.2020 and 31.12.2020	**99,037**
Impairment:-	
At 1.1.2019	—
Charge for the year	**99,037**
At 31.12.2019, 1.1.2020 and 31.12.2020	**99,037**
Carrying amount:-	
At 31.12.2020	—
At 31.12.2019	—

19. GOODWILL AND IMPAIRMENT ASSESSMENT *(continued)*

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

	2020 **HK$'000**	2019 HK$'000
Water supply services (note)	**90,290**	90,290
Financial services	**8,747**	8,747
	99,037	99,037

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

Water supply services represent a single group of CGUs for the purpose of impairment assessment, which consist of Qinghui Group and Taihe Water. For Qinghui Group under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations, using cash flow projections based on financial budgets approved by management covering a five-year period (2019: five year period). A discount factor at a rate of 10.27% (2019: 11.70%) was applied in the value-in-use model of Qinghui Group. Cash flows of Qinghui Group beyond the five-year period are extrapolated using 3% (2019: 3%) average growth rate, benchmarked against GDP and inflation rate in China. For Taihe Water under water supply services segment, the recoverable amount of the CGU is determined based on value-in-use calculations, using cash flow projections based on financial budgets approved by management covering the remaining concession periods of 6 years (2019: 7 years). As disclosed in note 18 to the consolidated financial statements, Taihe Water was granted right by the relevant authority in the PRC to use and operate certain water supply plants located at Qingyuan City for the period of 20 years from 2006 to 2026, pursuant to a concession agreement on a BOT basis. Taking into account the utility nature of water supply business, the oligopolised market of water supply in Qingyuan City, the robust demand of water exceeding supply and the stable city growth in Guangdong Province, the management considers a projection for the entire six years of the remaining concession period is appropriate. No terminal value was attributed to Taihe Water CGU beyond the six-year period. A discount factor at a rate of 13.4% (2019: 13.96%) was applied in the value-in-use model of Taihe Water.

For the years ended 31 December 2019 and 2020, due to the receiving of the cessation notice of water intake by the water plant operated by Qinghui Group and the narrowing of profit margin resulted from the switching of water supply as disclosed in the Company's announcement dated 3 March 2020, the management of the Company concluded there was an indication of impairment and conducted impairment assessment on recoverable amounts of water supply services CGU. Impairment assessment on the water supply services CGU as at 31 December 2019 and 2020 is based on the valuations by an independent professional valuer, Graval Consulting Limited.

For the year ended 31 December 2019, the recoverable amount of the financial services CGU is determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets approved by management covering a five-year period. A discount factor at a rate of 11.04% was applied in the value-in-use model. Cash flows beyond the five-year period were extrapolated using 3% average growth rate, benchmarked against GDP and inflation rate in Hong Kong.

19. GOODWILL AND IMPAIRMENT ASSESSMENT *(continued)*

The key assumptions used by the Group for the value-in-use calculations include budgeted average gross profit margin for water supply services and budgeted average net profit margin for financial services and discount rate. The budgeted average gross profit margin used in the financial budgets covering a five-year period and the remaining concession period of Qinghui Group and Taihe Water for the year ended 31 December 2020 were 8.23% (2019: 17.09%) and 12.94% (2019: 12.16%), respectively. The budgeted average net profit margin used in the impairment review of the financial services CGU for the year ended 31 December 2019 was -21.71% as a matter of prudence, due to the worsening economy of Hong Kong and the keen competition between service providers in the capital market.

For the year ended 31 December 2020, based on the result of the assessment, the management of the Company determined that the recoverable amount of water supply service CGU of HK$719,715,000 is not lower than the carrying amount. No impairment loss was recognised against the water supply service CGU. For the year ended 31 December 2019, based on the result of the assessment, the management of the Company determined that the recoverable amount of water supply service CGU of HK$793,177,000 is lower than the carrying amount. Full impairment loss on goodwill of approximately HK$90,290,000 was recognised which was mainly attributable to the cessation notice of water intake by the water plant operated by Qinghui Group, possibly resulting in lower operating margin and adversely affecting the future financial performance of the water supply segment.

The management of the Company believes that any adverse change in the assumptions used in the calculations of recoverable amounts would result in further impairment losses on tangible and intangible assets associated to the water supply services.

The impairment loss on the financial services was mainly attributable to the worsening economy of Hong Kong and the keen competition between service providers in the capital market. Accordingly, a full impairment of HK$8,747,000 was provided on the goodwill during the year ended 31 December 2019.

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

The Group paid a deposit of approximately HK$12,641,000 to acquire property, plant and equipment in prior year. The deposit was written off during the year as the acquisition was terminated.

21. INVENTORIES

	2020 HK$'000	2019 HK$'000
Water supply and related services		
– Raw materials	**2,146**	14,472
– Finished goods	**3,577**	4,250
	5,723	18,722
Property development		
– Land held for future development for sale	**13,946**	12,834
Less: Impairment loss – Note 21(b)	**(3,584)**	(3,276)
	10,362	9,558
	16,085	28,280

Notes:–

(a) The land held for future development are located in Australia and expected to be recovered after more than one year. All of the other inventories are expected to be recovered within one year.

(b) The movement in the impairment loss on land held for future development for sale during the years is as follows:–

	2020 HK$'000	2019 HK$'000
At 1 January	**3,276**	—
Impairment loss recognised	**–**	3,268
Exchange adjustments	**308**	8
At 31 December	**3,584**	3,276

22. DEBTORS

	2020 HK$'000	2019 HK$'000
Trade debtors	**50,471**	30,604
Less: loss allowance – Note 22(c)	**(2,684)**	(2,269)
	47,787	28,335

Notes:–

(a) The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with debtors, credit evaluations of customers are performed periodically. Further details on the Group's credit policy and credit risk arising from debtors are set out in note 39(a) to the consolidated financial statements.

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

	2020 HK$'000	2019 HK$'000
0 – 6 months	**47,699**	28,069
7 – 12 months	**65**	225
1 – 2 years	**23**	41
	47,787	28,335

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

	2020 HK$'000	2019 HK$'000
At 1 January	**2,269**	1,881
Impairment loss recognised	**308**	414
Exchange adjustments	**107**	(26)
At 31 December	**2,684**	2,269

(d) At 31 December 2020, the receivables with a carrying amount of RMB34,449,000 (equivalent to approximately HK$40,883,000) (2019: RMB24,228,000 (equivalent to approximately HK$27,078,000)) were pledged to secure bank loans granted to the Group (note 31).

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Utilities and deposits	**1,138**	1,159
Prepayments	**1,147**	1,361
Interest receivable	**8**	4
Other receivables	**7,524**	8,483
	9,817	11,007
Less: loss allowance on other receivables – Note 23(a)	**(105)**	(55)
	9,712	10,952

Note:–

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

	2020 HK$'000	2019 HK$'000
At 1 January	**55**	38
Impairment loss recognised	**47**	18
Exchange adjustments	**3**	(1)
At 31 December	**105**	55

24. CASH AND BANK BALANCES

As at 31 December 2020, cash and bank balances of the Group denominated in Renminbi amounted to HK$926,000,000 (2019: HK$431,110,000). Renminbi is not freely convertible into foreign currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

25. TRADE PAYABLES

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

	2020 HK$'000	2019 HK$'000
0 – 12 months	**108,721**	32,886
Over one year	**13,141**	—
	121,862	32,886

26. PAYABLE TO MERCHANTS

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

	2020 HK$'000	2019 HK$'000
0 – 12 months	–	–
Over one year	**3,011**	3,011
	3,011	3,011

27. DEPOSITS RECEIVED, SUNDRY CREDITORS AND ACCRUALS

	2020 HK$'000	2019 HK$'000
Deposits received	**7,703**	7,145
Accruals	**16,223**	13,290
Sundry creditors – Note 27(a)	**53,153**	120,878
Construction fee payable	**31,672**	43,086
Other tax payable	**4,523**	1,598
	113,274	185,997

Notes:–

(a) As at 31 December 2019, sundry creditors included the consideration payable of HK$63,599,000 for acquisition of assets through acquisition of subsidiaries (Note 35). The amount was fully settled during the year ended 31 December 2020.

(b) Interest payable on loan from a third party of RMB927,000 (equivalent to approximately HK$1,043,000) is included in accruals.

28. CONTRACT LIABILITIES

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

	2020 HK$'000	2019 HK$'000
At 1 January	43,566	23,396
Increase in contract liabilities as a result of receiving forward sales deposits during the year	58,670	87,520
Decrease in contract liabilities as a result of recognising revenue during the year	(77,887)	(66,610)
Exchange adjustment	1,632	(740)
At 31 December	25,981	43,566

Revenue that was included in the contract liability balance at the beginning of the reporting period amounting to HK$30,410,000 (2019: HK$17,444,000) was recognised in the reporting period.

29. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the reporting period:-

	Present value of minimum lease payments		Minimum lease payments	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
Amounts payable:–				
Within one year	2,728	2,519	3,059	2,588
In the second to fifth year	2,896	28	2,873	30
	5,624	2,547	5,932	2,618
Less: Future finance charges			308	71
Present value of lease obligation			5,624	2,547

30. AMOUNT DUE TO A RELATED COMPANY

The amount is interest-free, unsecured and repayable within one year.

31. BANK AND OTHER BORROWINGS

As at 31 December 2020, the bank and other borrowings were analysed as follows:–

	Note	2020 HK$'000	2019 HK$'000
Bank loans, secured	(a)	684,692	680,782
Government loans, unsecured		350	884
Loan from a third party	(b)	557,779	–
		1,242,821	681,666
Due for payment:–			
– Within one year		40,362	36,662
– Within two to five years		473,668	245,385
– Over five years		728,791	399,619
		1,242,821	681,666

Notes:–

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

	At 31 December 2020 HK$'000	2019 HK$'000
Total banking facilities granted	949,411	894,080
Less: banking facilities utilised by the Group	(684,692)	(680,782)
Unutilised banking facilities	264,719	213,298

31. BANK AND OTHER BORROWINGS *(continued)*

Notes:– *(continued)*

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

As at 31 December 2020, these banking facilities were secured by :–

i. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB2,375,000 (equivalent to approximately HK$2,671,000) (note 18);

ii. pledge of trade receivables with a carrying amount of RMB34,449,000 (equivalent to approximately HK$40,883,000) (note 22);

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

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

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

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

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

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

i. charges over a land use right under service concession arrangement with aggregate carrying amounts of RMB2,771,000 (equivalent to approximately HK$3,097,000) (note 18);

ii. pledge of trade receivables with a carrying amount of RMB24,228,000 (equivalent to approximately HK$27,078,000) (note 22);

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

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

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

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

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

(b) During the year, a third party advanced approximately HK$557,779,000 to the Group by way of the third party subscribing the equity of a subsidiary. The issued instrument carries a cumulative fixed-rate interest of 3% per annum, has no voting right, and is not entitled to profit distribution. The third party has no right to call for redemption unless the subsidiary agrees, while the subsidiary can redeem the equity at its own discretion. The directors classify the proceeds as liabilities.

32. SHARE CAPITAL

(a) Share capital

	The Group and the Company	
	Number of shares	HK$'000
Ordinary share of HK$0.01 each		
Authorised:–		
At 1 January 2019	5,000,000,000	50,000
Increase in authorised share capital – note a	15,000,000,000	150,000
At 31 December 2019, 1 January 2020 and 31 December 2020	20,000,000,000	200,000
Issued and fully paid:–		
At 1 January 2019	2,120,448,858	21,205
Placing of new shares – note b	1,586,400,000	15,864
Rights issue – note c	1,805,909,900	18,059
At 31 December 2019 and 1 January 2020	5,512,758,758	55,128
Shares issued under share option scheme – note d	241,242	2
At 31 December 2020	5,513,000,000	55,130

Notes:–

a. On 23 April 2019, the authorised share capital of the Company was increased from HK$50,000,000 to HK$200,000,000 by the creation of an additional 15,000,000,000 shares of HK$0.01 each.

b. On 19 June 2019, an aggregate of 1,586,400,000 new shares of HK$0.01 each of the Company were issued under a specific mandate at a placing price of HK$0.23 each.

c. On 19 June 2019, an aggregate of 1,805,909,900 new shares of HK$0.01 each were allotted and issued on the completion of a non-underwritten two-for-one rights issue at the subscription price of HK$0.23 per rights share.

d. On 29 April 2020, 241, 242 share options were exercised by the eligible option holders, resulting in the issue of 241,242 shares of HK$0.01 each of the Company at a total consideration of approximately HK$38,000.

32. SHARE CAPITAL *(continued)*

(b) Capital management

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

The Group's equity capital management strategy was to maintain a reasonable proportion in total liabilities and total assets. The Group monitors equity capital on the basis of gearing ratio, which is calculated as total liabilities over total assets. The gearing ratios at 31 December 2020 and 31 December 2019 were as follows:–

	2020 **HK$'000**	2019 HK$'000
Total liabilities	**1,524,587**	954,918
Total assets	**2,935,233**	2,333,873
Gearing ratio	**51.94%**	40.92%

33. SHARE OPTIONS

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

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

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

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

33. SHARE OPTIONS *(continued)*

(a) A summary of the movements of share options granted under the New Share Option Scheme during each of the two years ended 31 December 2020 is as follows:–

			Number of share options					
Date of grant	Exercise period	Exercise price	Outstanding at 1 January 2019	Cancelled during the year	Outstanding at 31 December 2019 and 1 January 2020	Granted during the year	Exercised during the year	Outstanding at 31 December 2020
25 November 2013	25 November 2013 to 11 August 2020	HK$0.465	40,000,000	(40,000,000)	—	—	—	—
15 April 2020	15 April 2020 to 11 August 2020	HK$0.16	—	—	—	241,242	(241,242)	—

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

	2020 Weighted average of exercise price HK$	2020 Number of options	2019 Weighted average of exercise price HK$	2019 Number of options
Outstanding at the beginning of the year	—	—	0.465	40,000,000
Granted during the year	**0.16**	**241,242**	—	—
Exercised during the year	**0.16**	**(241,242)**	—	—
Cancelled during the year	—	—	0.465	(40,000,000)
Outstanding at the end of year	—	—	—	—
Exercisable at the end of year	—	—	—	—

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

There were 241,242 share options granted and exercised during the year ended 31 December 2020.

33. SHARE OPTIONS *(continued)*

(c) Fair value of share options granted

120,000,000 ("Option 2013") and 241,242 ("Option 2020") share options under the New Share Option Scheme were granted during the years ended 31 December 2013 and 2020 respectively.

Fair values of share options granted during the years ended 31 December 2013 and 2020 were as follows:–

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

	Option 2013	Option 2020
Fair value at measurement date	HK$0.03997	HK$0.01220
Share price	HK$0.460	HK$0.155
Exercise price	HK$0.465	HK$0.16
Expected volatility	65.89%	46.84%
Expected dividend yield	1.41%	0%
Risk-free interest rate	1.44%	0.61%

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

34. RESERVES

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

	Share premium HK$'000	Capital redemption reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1.1.2019	520,908	481	1,599	(167,982)	355,006
Rights issue	397,300	—	—	—	397,300
Placing of new shares	349,008	—	—	—	349,008
Shares issuing expenses	(12,238)	—	—	—	(12,238)
Cancellation of share options	—	—	(1,599)	1,599	—
Total comprehensive loss for the year	—	—	—	(83,987)	(83,987)
At 31.12.2019 and 1.1.2020	1,254,978	481	—	(250,370)	1,005,089
Share-based payments	—	—	3	—	3
Shares issued under share option scheme	39	—	(3)	—	36
Total comprehensive loss for the year	—	—	—	(30,904)	(30,904)
At 31.12.2020	**1,255,017**	**481**	—	**(281,274)**	**974,224**

Notes:–

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

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

(iii) As at 31 December 2020, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK$973,743,000 (2019: HK$1,004,608,000) subject to the restrictions as stated above.

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

(v) The subsidiary established in the PRC was required by PRC Company Law to appropriate 10% of its statutory after-tax profit to a statutory reserve fund until the balance of the fund reached 50% of share capital and thereafter any further appropriation was optional. The statutory reserve fund could be utilised to offset prior years' losses or to increase share capital on the condition that the statutory reserve fund must be maintained at a maximum of 25% of the share capital after such issuance. During the year, the Board of Directors of the subsidiary resolved to appropriate HK$3,593,000 (2019: HK$3,345,000) from retained profits to statutory reserve fund.

35. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

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

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

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

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

The remaining consideration (RMB57,600,000) was paid during the year ended 31 December 2020.

36. DISPOSAL OF A SUBSIDIARY

On 8 May 2020, Qinghui Properties Limited ("**Qinghui**"), an indirect non-wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Qingyuan Yuncheng Properties Company Limited ("**Yuncheng**"), an independent third party, pursuant to which Qinghui agreed to sell (the "**Disposal**") and Yuncheng agreed to purchase 100% equity interests in Qingyuan Kaipeng Properties Company Limited ("**Kaipeng**") at a total consideration of RMB5,300,000 (equivalent to approximately HK$5,942,000).

36. DISPOSAL OF A SUBSIDIARY *(continued)*

After the completion of the Disposal on 13 May 2020, Kaipeng ceased to be a subsidiary of the Group.

	HK$'000
Net assets disposed of:–	
Property, plant and equipment – Note 13	1,669
Prepaid land lease premium – Note 14	2,366
Investment properties – Note 15	392
Deposits, prepayments and other receivables	6
Cash and bank balances	118
Deposits received, sundry creditors and accruals	(1,142)
Deferred tax liabilities – Note 9(a)	(771)
Net assets disposed of	2,638
Release of exchange reserve	65
Non-controlling interest	(1,345)
Gain on disposal of a subsidiary – Note 5	4,584
	5,942
Satisfied by:	
Cash consideration	5,942

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Kaipeng during the year was as follows:–

Cash consideration	5,942
Cash and cash equivalents disposed of	(118)
Net inflow of cash and cash equivalents in respect of the disposal of Kaipeng	5,824

37. OPERATING LEASE ARRANGEMENTS

As at 31 December 2020, the Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:–

	2020 HK$'000	2019 HK$'000
Within one year	**18,663**	30,695
After one year but within five years	**4,891**	615
Over five years	**354**	5
	23,908	31,315

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

38. CAPITAL COMMITMENTS

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

	2020 HK$'000	2019 HK$'000
Property, plant and equipment	**4,572**	18,373
Other intangible assets	—	17
	4,572	18,390

39. NATURE AND EXTENT OF FINANCIAL INSTRUMENT RISKS

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

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

(a) Credit risk

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

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

Debtors

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

The Group measures loss allowances for debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

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

(a) Credit risk *(continued)*

Debtors *(continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for debtors at 31 December 2020:–

	2020		
	Expected loss rate %	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**
0-6 months	**1.72%**	**48,534**	**835**
7-12 months	**46.50%**	**122**	**57**
1-2 years	**90.83%**	**253**	**230**
Over 2 years	**100.00%**	**1,562**	**1,562**
		50,471	**2,684**

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

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the debtors.

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

(b) Liquidity risk

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

Maturities of the non-derivative financial liabilities of the Group at 31 December 2020 were as follows:–

	2020				
	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Less than 1 year or on demand HK$'000	In 2 to 5 years HK$'000	Over 5 years HK$'000
Total amounts of contractual undiscounted obligations:–					
Bank and other borrowings	685,042	836,891	77,036	583,565	176,290
Loan from a third party	557,779	557,779	—	—	557,779
Trade payables	121,862	121,862	121,862	—	—
Payable to merchants	3,011	3,011	3,011	—	—
Sundry creditors and accruals	113,267	113,267	113,267	—	—
Lease liabilities	5,624	5,932	3,059	2,873	—
Amount due to a related company	47	47	47	—	—
	1,486,632	1,638,789	318,282	586,438	734,069

	2019				
	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Less than 1 year or on demand HK$'000	In 2 to 5 years HK$'000	Over 5 years HK$'000
Total amounts of contractual undiscounted obligations:–					
Bank and other borrowings	681,666	867,415	73,291	369,572	424,552
Trade payables	32,886	32,886	32,886	—	—
Payable to merchants	3,011	3,011	3,011	—	—
Sundry creditors and accruals	185,902	185,902	185,902	—	—
Lease liabilities	2,547	2,618	2,588	30	—
Amount due to a related company	45	45	45	—	—
	906,057	1,091,877	297,723	369,602	424,552

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

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Carrying amounts of financial assets and financial liabilities at 31 December 2020 exposed to currency risk were as follows:-

	2020 **HK$'000**	2019 HK$'000
Financial assets denominated in foreign currencies:-		
Deposits and other receivables	**166**	166
Fixed deposits	**5,417**	4,970
Cash and bank balances	**18,100**	2,041
	23,683	7,177
Financial liabilities denominated in foreign currencies:-		
Payable to merchants	**(126)**	(126)
Deposits received, sundry creditors and accruals	**—**	(64,376)
	(126)	(64,502)
Net financial assets/(liabilities) exposed to currency risk	**23,557**	(57,325)

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

	2020 **HK$'000**	2019 HK$'000
Australian dollars	**1**	1
United States dollars	**1,508**	1,515
Renminbi	**22,048**	(58,841)
	23,557	(57,325)

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

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

(c) Currency risk *(continued)*

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

Since Hong Kong dollars is pegged to United States dollars, material fluctuations in the exchange rates of Hong Kong dollars against United States dollars are remote. Should Hong Kong dollars at 31 December 2020 devalue by 10% against all foreign currencies except United States dollars, the carrying amount of the net financial assets (2019: net financial liabilities) of the Group exposed to currency risk at 31 December 2020 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates" would be increased, and hence the equity at 31 December 2020 would be increased/decreased by HK$2,205,000 (2019: HK$5,884,000); and loss for the year ended 31 December 2020 would be decreased/increased by the same amount.

(d) Market price risk

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

The Group has no significant exposure to market price risk.

(e) Interest rate risk

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

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

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

(e) Interest rate risk *(continued)*

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates as at 31 December 2020 and 2019:–

	At 31 December 2020		At 31 December 2019	
	Effective interest rate		Effective interest rate	
	%	HK$'000	%	HK$'000
Fixed rate financial assets				
Fixed deposits	0.25%-2.46%	143,614	1.4%-2.79%	248,754
Fixed rate financial liabilities				
Lease liabilities	4.98%	(5,624)	4.98%	(2,547)
Loan from a third party	3%	(557,779)	—	—
Variable rate financial assets				
Bank balances	0.05%-0.35%	917,426	0.01%-0.35%	426,805
Variable rate financial liabilities				
Bank and other borrowings	3.3%-5.64%	(685,042)	3.3%-5.64%	(681,666)
		(187,405)		(8,654)

It is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, the Group's loss for the year ended 31 December 2020 would be increased (2019: increased) and respective accumulated losses would be increased (2019: increased) by approximately HK$1,747,000 (2019: HK$1,908,000).

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

(f) Fair values

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 2019.

40. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Apart from the transaction as disclosed in notes 30 and 31 to the consolidated financial statements, the Group had other material transaction with its related party during the year as follows:–

Particulars	Relationship	2020 HK$'000	2019 HK$'000
Rental income	Common shareholder	**554**	585

(b) Key management personnel compensation

	2020 HK$'000	2019 HK$'000
Fees for key management personnel	**1,868**	1,914
Salaries, allowances and other benefits in kind	**5,266**	7,349
Pension scheme contributions	**32**	109
	7,166	9,372

41. LITIGATION

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

As disclosed in the Announcement, the Group has sought legal advice to uphold its right regarding the Cessation Notice and the water intake from the Government-designated Water Plant. In October 2020, WSD Company received a writ of civil claim from the Government-designated Water Plant alleging to claim against WSD Company the "cost of water supply" in the sum of RMB96.5 million. After seeking advice from their PRC legal advisers, WSD Company is of the view that the dispute is originated from administrative decision/order given by the governmental bodies instead of a contract voluntarily entered into by a willing buyer and therefore the plaintiff's claim is without legal basis. At this stage, the directors consider difficult to predict the outcome of the litigation. However, the Group has provided the cost of water supply, based on a reasonable estimation, in the consolidated financial statements for the year ended 31 December 2020, pending the resolution of the relevant disputes and litigations.

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank and other borrowings HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2019	452,179	4,966	457,145
Changes from financing cash flows:			
Lease rentals paid	—	(2,419)	(2,419)
Proceeds from new bank loans	294,998	—	294,998
Interest paid	(32,256)	(192)	(32,448)
Repayment of bank loans	(53,648)	—	(53,648)
	661,273	2,355	663,628
Exchange adjustments	(11,863)	—	(11,863)
Other changes:			
Interest expenses	23,780	192	23,972
Capitalised borrowing costs	8,476	—	8,476
At 31 December 2019 and 1 January 2020	**681,666**	**2,547**	**684,213**
Changes from financing cash flows:			
Lease rentals paid	—	**(2,970)**	**(2,970)**
Interest paid	**(37,529)**	**(112)**	**(37,641)**
Repayment of bank loans	**(36,763)**	—	**(36,763)**
Loan from a third party	**557,779**	—	**557,779**
	1,165,153	**(535)**	**1,164,618**
Exchange adjustments	**40,139**	**55**	**40,194**
Other changes:			
New leases	—	**5,992**	**5,992**
Interest expenses	**37,529**	**112**	**37,641**
At 31 December 2020	**1,242,821**	**5,624**	**1,248,445**

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(continued)

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

	2020 HK$'000	2019 HK$'000
Within:–		
Operating cash flows	**(250)**	(501)
Investing cash flows	**(64,375)**	(572,386)
Financing cash flows	**(3,082)**	(2,611)
	(67,707)	(575,498)

These amounts relate to the following:–

	2020 HK$'000	2019 HK$'000
Lease rentals paid	**(3,332)**	(3,112)
Purchase of land and buildings	**(64,375)**	(572,386)
	(67,707)	(575,498)

43. SEGMENT REPORTING

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

The Group has presented the following two reportable segments.

(a) Water supply and related services

This segment is engaged in supply of tap water to various districts of Qingyuan City, Guangdong Province. The water supply business currently operates three water treatment plants, two of which source raw water from local river sources and the rest purchases clean water from a government-designated water plant.

(b) Properties investment and development

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

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

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

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

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

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

43. SEGMENT REPORTING *(continued)*

(a) Segments results, assets and liabilities

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

	Reportable Segments							
	Water supply and related services		Properties investment and development		Others		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Disaggregated by timing of revenue recognition								
Point in time	**17,078**	14,479	—	—	—	—	**17,078**	14,479
Over time	**288,829**	275,982	**38,841**	13,137	—	—	**327,670**	289,119
Reportable segment revenue	**305,907**	290,461	**38,841**	13,137	—	—	**344,748**	303,598
Reportable segment (loss)/profit	**(31,610)**	32,921	**33,805**	1,671	**(24,331)**	(32,657)	**(22,136)**	1,935
Interest on bank deposits							**2,956**	6,461
Government subsidy							**237**	119
Net increase in fair value of investment properties							**48**	1,596
Impairment loss on goodwill							—	(99,037)
Impairment loss on property, plant and equipment	**(6,025)**	—	—	—	—	—	**(6,025)**	—
Gain on disposal of a subsidiary							**4,584**	—
Share of loss of a joint venture							**(106)**	—
Finance costs							**(38,793)**	(24,260)
Loss before income tax							**(59,235)**	(113,186)
Income tax expense							**(12,023)**	(3,516)
Loss for the year							**(71,258)**	(116,702)
Attributable to:								
– Shareholders of the Company							**(36,337)**	(116,634)
– Non-controlling interests							**(34,921)**	(68)
							(71,258)	(116,702)
Depreciation for the year	**39,586**	38,903	**3,293**	1,590	**2,907**	2,774	**45,786**	43,267
Amortisation	**46,408**	48,968	**340**	372	—	—	**46,748**	49,340
Capital expenditure incurred during the year	**11,575**	53,727	**63**	636,475	—	26	**11,638**	690,228
Interest in a joint venture	—	—	**259,789**	—	—	—	**259,789**	—
Reportable segment assets	**911,019**	1,240,016	**1,788,671**	767,823	**235,543**	326,034	**2,935,233**	2,333,873
Unallocated assets							**2,047**	1,654
Total assets							**2,937,280**	2,335,527
Reportable segment liabilities	**923,367**	857,547	**532,599**	9,785	**56,654**	82,386	**1,512,620**	949,718
Unallocated liabilities							**64,128**	58,076
Total liabilities							**1,576,748**	1,007,794

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

43. SEGMENT REPORTING *(continued)*

(b) Geographical information

	PRC		Hong Kong/overseas		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Reportable segment revenue	**344,748**	303,598	**—**	—	**344,748**	303,598
Non-current assets	**1,710,217**	1,525,976	**8,757**	6,869	**1,718,974**	1,532,845

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

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**36**	75
Interests in subsidiaries		**1,142,603**	1,150,528
Right-of-use assets		**4,580**	2,434
		1,147,219	1,153,037
CURRENT ASSETS			
Deposits, prepayments and other receivables		**1,676**	1,721
Fixed deposits		**143,614**	248,754
Cash and bank balances		**59,122**	40,681
		204,412	291,156
DEDUCT:–			
CURRENT LIABILITIES			
Sundry creditors and accruals		**7,143**	70,905
Amounts due to subsidiaries		**310,549**	310,576
Lease liabilities		**2,340**	2,495
		320,032	383,976
NET CURRENT LIABILITIES		**(115,620)**	(92,820)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,031,599**	1,060,217
DEDUCT:–			
NON-CURRENT LIABILITY			
Lease liabilities		**2,245**	–
NET ASSETS		**1,029,354**	1,060,217
REPRESENTING:–			
CAPITAL AND RESERVES			
Share capital	32(a)	**55,130**	55,128
Reserves	34	**974,224**	1,005,089
TOTAL EQUITY		**1,029,354**	1,060,217

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The details of the principal subsidiaries at 31 December 2020 are as follows:-

Name of company	Place of incorporation/ establishment and operation	Legal form of entity	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Group's effective interest	Principal activities
Universal Cyberworks International Limited	British Virgin Islands ("**BVI**")	Limited liability company	2 ordinary shares of US$1 each	100% (2019: 100%)	—	100% (2019: 100%)	Investment holding
Universal Property Holdings Limited	Hong Kong	Limited liability company	HK$10,000	—	100% (2019: 100%)	100% (2019: 100%)	Investment holding
Hooray Asset Management Limited	Hong Kong	Limited liability company	HK$6,440,000 (2019: HK$5,640,000)	—	100% (2019: 100%)	100% (2019: 100%)	Provision of investment advisory services
Wayland Asia Pacific Estate Pty Ltd	Australia	Limited liability company	AUD100	—	100% (2019: 100%)	100% (2019: 100%)	Estate development
Shenzhen Huanye Universal Technologies Limited* ("**Huanye**")	PRC	Wholly foreign owned enterprise	RMB85,000,000	—	100% (2019: 100%)	100% (2019: 100%)	Investment holding
Qinghui Properties Limited (note)	PRC	Limited liability company	RMB980,000,000 (2019: RMB410,000,000)	—	49% (2019: 49%)	49% (2019: 49%)	Investment holding
Dongguan Xinhongcheng Enterprise Management Company Limited	PRC	Limited liability company	RMB15,000,000	—	49% (2019: 49%)	49% (2019: 49%)	Investment holding
Qingyuan Jingyu Properties Company Limited	PRC	Limited liability company	RMB1,000,000	—	49% (2019: 49%)	49% (2019: 49%)	Properties investment
Qingyuan Jinhong Industrial Company Limited	PRC	Limited liability company	RMB1,000,000	—	49% (2019: 49%)	49% (2019: 49%)	Properties investment
Qingyuan Water Supply Development Company Limited ("**Water Supply Development**")	PRC	Limited liability company	RMB98,521,440	—	49% (2019: 49%)	49% (2019: 49%)	Provision of water supply business
Qingyuan Jincheng Water Testing Company Limited	PRC	Limited liability company	RMB1,600,000	—	49% (2019: 49%)	49% (2019: 49%)	Provision of water quality testing service
Qingyuan Qingxin District Huike Properties Company Limited	PRC	Limited liability company	RMB2,000,000	—	49% (2019: 49%)	49% (2019: 49%)	Investment holding

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

Name of company	Place of incorporation/ establishment and operation	Legal form of entity	Particulars of issued share capital/registered capital	Attributable equity interest held by the Company Directly	Indirectly	Group's effective interest	Principal activities
Qingyuan Qingxin District Taihe Water Company Limited ("**Taihe Water**")	PRC	Limited liability company	RMB23,254,000	—	49% (2019: 49%)	24.99% (2019: 24.99%)	Provision of water supply business
Chevalier Earth Group Limited	BVI	Limited liability company	HK$100	100% (2019: 100%)	—	100% (2019: 100%)	Investment holding
Heng Hui Property Investment Limited	Hong Kong	Limited liability company	HK$130,000	—	100% (2019: 100%)	100% (2019: 100%)	Investment holding
Guangzhou Yicheng Investment Holdings Limited*	PRC	Wholly foreign owned enterprise	RMB200,000,000	—	100% (2019: 100%)	100% (2019: 100%)	Investment holding
Guangzhou Hengxin Yuxuan Industrial Development Limited	PRC	Limited liability company	RMB200,000,000	—	100% (2019: 100%)	100% (2019: 100%)	Properties investment

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

Note:–

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

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

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

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

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

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

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

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

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

	2020		2019	
	Water Supply Development	**Taihe Water**	Water Supply Development	Taihe Water
NCI Percentage	**51%**	**75.01%**	51%	75.01%

	2020		2019	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Current assets	**452,246**	**47,357**	438,064	37,401
Non-current assets	**386,264**	**239,142**	419,386	267,185
Current liabilities	**(246,145)**	**(33,524)**	(168,741)	(46,578)
Non-current liabilities	**(497,456)**	**(147,741)**	(505,533)	(155,577)
Net assets	**94,909**	**105,234**	183,176	102,431
Carrying amount of NCI	**48,404**	**78,936**	93,420	76,833

	2020		2019	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Revenue	**253,005**	**91,011**	221,207	11,463
(Loss)/profit for the year	**(62,265)**	**(1,465)**	19,494	(7,360)
Other comprehensive income/(loss)	**6,901**	**6,139**	(3,398)	(1,892)
Total comprehensive (loss)/income for the year	**(55,364)**	**4,674**	16,096	(9,252)
(Loss)/profit allocated to NCI	**(31,755)**	**(1,099)**	9,942	(5,521)
Cash flows generated from operating activities	**108,414**	**40,512**	109,093	21,050
Cash flows used in investing activities	**(266,670)**	**(14,000)**	(29,641)	(27,912)
Cash flows (used in)/generated from financing activities	**(84,265)**	**(18,691)**	170,145	11,112

46. EVENTS AFTER THE REPORTING PERIOD

In February 2021, Qinghui Properties Limited ("**Qinghui**"), a 49%-owned subsidiary of the Group, proposed to participate in the fund-raising round of Guangdong Nanyue Bank Co., Ltd. ("**Nanyue Bank**"), through the proposed subscription of a maximum of 177,000,000 shares of Nanyue Bank (the "**Financial Investment**") for the subscription price of up to RMB380,550,000 (HK$455,203,000) in cash.

Further details regarding the Financial Investment were disclosed in the Company's announcement dated 2 February 2021.

1. PROPERTIES HELD FOR INVESTMENT

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

2. PROPERTIES UNDER DEVELOPMENT FOR SALE

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

Five Years Financial Summary

For the year ended 31 December 2020

RESULTS

	Year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**344,748**	303,598	271,909	248,536	444,347
(Loss)/profit for the year	**(71,258)**	(116,702)	(10,017)	24,576	(4,700)
Attributable to:					
Shareholders of the Company	**(36,337)**	(116,634)	(26,805)	2,660	(25,171)
Non-controlling interests	**(34,921)**	(68)	16,788	21,916	20,471
	(71,258)	(116,702)	(10,017)	24,576	(4,700)

ASSETS AND LIABILITIES

	At 31 December				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**1,721,021**	1,534,499	1,034,746	1,109,810	1,027,836
CURRENT ASSETS	**1,216,259**	801,028	345,600	644,788	733,414
DEDUCT:					
CURRENT LIABILITIES	**319,232**	309,886	179,340	601,402	604,471
NET CURRENT ASSETS	**897,027**	491,142	166,260	43,386	128,943
	2,618,048	2,025,641	1,201,006	1,153,196	1,156,779
DEDUCT:					
NON-CURRENT LIABILITIES	**(1,257,516)**	(697,908)	(505,943)	(431,635)	(463,561)
NET ASSETS	**1,360,532**	1,327,733	695,063	721,561	693,218