中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

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

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

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

The board (the "**Board**") of Directors (the "**Directors**") of China Water Industry Group Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018 together with comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*3*	**950,166**	701,524
Cost of sales		**(553,433)**	(432,685)
Gross profit		**396,733**	268,839
Other operating income and expenses		**77,277**	97,758
Reversal of impairment loss recognised on trade and other receivables		**–**	95
Selling and distribution expenses		**(40,325)**	(34,252)
Administrative expenses		**(237,013)**	(188,408)
Finance costs	*5*	**(47,559)**	(33,780)
Change in fair value of investment properties		**12,476**	1,223
Net loss on financial assets at fair value through profit or loss		**(26,778)**	(40,733)
Net loss on disposal of available-for-sale investments		**–**	(12,238)
Impairment loss recognised on:			
property, plant and equipment		**(4,950)**	–
concession intangible assets		**–**	(1,512)
goodwill		**(8,587)**	(3,824)
other intangible assets		**(10,093)**	–
available-for-sale investments		**–**	(1,774)
trade and other receivables		**(6,513)**	(2,334)
Share profit/(loss) of associates		**2,689**	(3,955)
Share loss of a joint venture		**(124)**	–
Profit before taxation		**107,233**	45,105
Income tax	*6*	**(41,651)**	(34,203)
Profit for the year	*7*	**65,582**	10,902
Attributable to:			
Owners of the Company		**6,646**	(49,111)
Non-controlling interests		**58,936**	60,013
		65,582	10,902
Earnings/(loss) per share (HK cents):	*9*		
Basic		**0.42**	(3.08)
Diluted		**0.42**	(3.08)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
Current liabilities			
Overdraft held at financial institutions		**55,550**	20,266
Trade and other payables	11	**285,374**	219,804
Amounts due to customers for contract works		**–**	214,781
Contract liabilities		**309,371**	–
Bank borrowings		**55,362**	70,833
Other loans		**40,319**	253,586
Obligations under finance leases		**91,500**	45,667
Amounts due to non-controlling shareholders of subsidiaries		**695**	132
Loans from associates		**–**	3,148
Deposit received from disposal of associates		**86,352**	–
Amounts due to associates		**2,070**	–
Deposit received from disposal of a subsidiary		**5,693**	–
Tax payables		**20,508**	23,269
		952,794	851,486
Liabilities directly associated with the assets held for sale		**2,985**	–
		955,779	851,486
Net current assets		**422,728**	368,242
Total assets less current liabilities		**2,604,933**	2,276,067
Capital and reserves			
Share capital		**798,270**	798,270
Share premium and reserves		**421,126**	507,129
Equity attributable to owners of the Company		**1,219,396**	1,305,399
Non-controlling interests		**543,014**	514,237
TOTAL EQUITY		**1,762,410**	1,819,636
Non-current liabilities			
Other payables	11	**11,991**	–
Bank borrowings		**57,915**	96,267
Other loans		**544,725**	188,690
Obligations under finance leases		**117,167**	56,597
Government grants		**30,721**	34,803
Deferred tax liabilities		**80,004**	80,074
		842,523	456,431
		2,604,933	2,276,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

China Water Industry Group Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its principal place of business is located at Room 1207, 12th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

The Group is principally engaged in (i) provision of water supply, sewage treatment and construction services; and (ii) exploitation and sale of renewable energy in the PRC.

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

HKFRS 9 Financial instruments

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

a) *Classification of financial assets and financial liabilities*

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

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

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

b) Credit losses

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

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

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

– contract assets as defined in HKFRS 15.

The Group has applied the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for accounts receivables. Except for those which had been determined as credit impaired under HKAS 39, accounts receivables are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances, loan receivables, amount due from a joint venture, other receivables and receivables under service concession arrangements, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 15 Revenue from contracts with customers

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

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

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

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

a) Timing of revenue recognition

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

a) Timing of revenue recognition *(Continued)*

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

The timing of revenue recognition is affected as follows:

Accounting for revenue from construction contracts

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

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

b) Presentation of contract assets and liabilities

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

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

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

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

HK(IFRIC) 22 Foreign currency transactions and advance consideration

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

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

3. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15:		
Disaggregated by major products or service lines:		
Water supply services	**162,595**	129,172
Sewage treatment services	**47,771**	44,331
Water supply related installation and construction income	**242,719**	241,561
Water supply and sewage treatment infrastructure construction income	**63,757**	48,483
Sale of electricity	**386,774**	194,605
Sale of compressed natural gas	**19,520**	29,827
Service income from collection of landfill gas	**27,030**	13,545
	950,166	701,524

Sales of electricity to provincial power grid companies included tariff adjustment received and receivable from the relevant government authorities.

Note:

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 4.

4. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors of the Company being the chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group has identified the following reportable segments:

(i) "Provision of water supply, sewage treatment and construction services" segment, which derives revenues primarily from the provision of water supply and sewage treatment operations and related construction services; and

(ii) "Exploitation and sale of renewable energy" segment, which derives revenues primarily from sale of electricity and compressed natural gas from biogas power plants.

Information regarding the Group's reportable segments as provided to the board of directors of the Company for the purposes of resource allocation and assessment of segment performance is set out below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments.

4. **SEGMENT REPORTING** *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2018

	Provision of water supply, sewage treatment and construction services *HK$'000*	**Exploitation and sale of renewable energy** *HK$'000*	**Total** *HK$'000*
Reportable segment revenue			
Disaggregated by timing of revenue recognition:			
Point in time	**232,244**	**433,324**	**665,568**
Over time	**284,598**	**–**	**284,598**
	516,842	**433,324**	**950,166**
Reportable segment profit	**130,532**	**107,738**	**238,270**
Unallocated corporate expenses			**(83,936)**
Interest income			**21,696**
Interest on overdraft held at financial institutions			**(4,256)**
Interest on fixed coupon bonds			**(37,763)**
Net loss on financial assets at fair value through profit or loss			**(26,778)**
Profit before taxation			**107,233**

For the year ended 31 December 2017

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Total *HK$'000*
Reportable segment revenue			
Disaggregated by timing of revenue recognition:			
Point in time	201,943	237,977	439,920
Over time	261,604	–	261,604
	463,547	237,977	701,524
Reportable segment profit	132,495	40,197	172,692
Unallocated corporate expenses			(49,110)
Interest income			1,943
Interest on overdraft held at financial institutions			(2,591)
Interest on fixed coupon bonds			(23,084)
Net loss on financial assets at fair value through profit or loss			(40,733)
Net loss on disposal of available-for-sale investments			(12,238)
Impairment loss recognised on available-for-sale investment			(1,774)
Profit before taxation			45,105

4. SEGMENT REPORTING *(Continued)*

Other segment information

For the year ended 31 December 2018

	Provision of water supply sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	**3,294**	**116**	**21,696**	**–**	**25,106**
Interest expenses	**(1,389)**	**(8,407)**	**(37,763)**	**–**	**(47,559)**
Share of profit/(loss) of associates	**2,719**	**(30)**	**–**	**–**	**2,689**
Share of loss of a joint venture	**(124)**	**–**	**–**	**–**	**(124)**
Depreciation of property, plant and equipment	**(4,333)**	**(60,443)**	**(5,609)**	**(3,544)**	**(73,929)**
Amortisation of:					
– Prepaid lease payments	**(1,133)**	**(22)**	**(2,107)**	**–**	**(3,262)**
– Concession intangible assets	**(26,238)**	**(13,313)**	**–**	**–**	**(39,551)**
– Other intangible assets	**–**	**(31,707)**	**–**	**–**	**(31,707)**
Loss on disposal of property, plant and equipment and prepaid lease payments	**(119)**	**(332)**	**(45)**	**–**	**(486)**
Loss on disposal of concession intangible assets	**(17)**	**(731)**	**–**	**–**	**(748)**
Impairment loss recognised on:					
– Property, plant and equipment	**–**	**(4,950)**	**–**	**–**	**(4,950)**
– Goodwill	**–**	**(8,587)**	**–**	**–**	**(8,587)**
– Other intangible assets	**–**	**(10,093)**	**–**	**–**	**(10,093)**
– Trade and other receivables	**(1,498)**	**(3,580)**	**(1,435)**	**–**	**(6,513)**
Reportable segment assets	**1,004,654**	**1,425,340**	**1,003,539**	**127,179**	**3,560,712**
Additions to non-current assets	**76,070**	**336,915**	**198,506**	**2,277**	**613,768**
Reportable segment liabilities	**(508,540)**	**(608,936)**	**(391,690)**	**(289,136)**	**(1,798,302)**

4. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2017

	Provision of water supply, sewage treatment and construction services *HK$'000*	Exploitation and sale of renewable energy *HK$'000*	Corporate *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Interest income	19,678	533	1,943	–	22,154
Interest expenses	(1,487)	(6,610)	(25,683)	–	(33,780)
Share of losses of associates	(3,955)	–	–	–	(3,955)
Depreciation of property, plant and equipment	(5,366)	(49,374)	(2,086)	–	(56,826)
Amortisation of:					
– Prepaid lease payments	(1,104)	–	(616)	–	(1,720)
– Concession intangible assets	(24,639)	(4,670)	–	–	(29,309)
– Other intangible assets	–	(31,005)	–	–	(31,005)
Gain/(loss) on disposal of property, plant and equipment and prepaid lease payments	15	(7)	58	–	66
Net loss on disposal of available-for-sale investments	–	–	(12,238)	–	(12,238)
Impairment loss recognised on:					
– Trade and other receivables	(1,951)	(383)	–	–	(2,334)
– Available-for-sale investments	–	–	(1,774)	–	(1,774)
– Goodwill	–	(3,824)	–	–	(3,824)
– Concession intangible assets	(1,512)	–	–	–	(1,512)
Reversal of impairment loss recognised on trade and other receivables	93	2	–	–	95
Reportable segment assets	1,240,104	1,254,241	514,172	119,036	3,127,553
Additions to non-current assets	72,121	183,557	25,349	–	281,027
Reportable segment liabilities	(346,231)	(395,445)	(478,126)	(88,115)	(1,307,917)

4. SEGMENT REPORTING *(Continued)*

Other segment information *(Continued)*

Segment assets include all tangible, intangible assets and current assets with the exception of available-for-sale investments, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and other unallocated corporate assets. Segment liabilities include all current liabilities and non-current liabilities with the exception of overdraft held at financial institutions and other unallocated corporate liabilities.

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

Segment revenue reported above represents revenue generated from external customers. There were no inter-segments sales in the current year (2017: nil).

The measure used for reporting segment profit is "adjusted profit before tax". To arrive at adjusted profit before tax the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as interest on overdraft held at financial institutions, change in fair value of financial assets at fair value through profit or loss, net loss on disposal of investments, impairment loss recognised on available-for-sale investments, directors' and auditors' remuneration and other head office or corporate administration costs.

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

For the years ended 31 December 2018 and 2017, the Group does not have any single significant customer with the transaction value of 10% or more of the revenue.

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on:		
– bank borrowings	**6,230**	5,624
– other loans	**45,794**	41,403
– overdraft held at financial institutions	**4,258**	2,591
Finance charges on obligations under finance leases	**10,034**	3,610
Total borrowing cost	**66,316**	53,228
Less: interest capitalised included in construction in progress	**(18,757)**	(19,448)
	47,559	33,780

Included in construction-in-progress under concession intangible assets and property, plant and equipment are interest capitalised during the year of HK$18,757,000 (2017: HK$19,448,000) at the capitalisation rate of 7.63% (2017: 8.21%) per annum.

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Provision for the year	**–**	–
Current tax – PRC Enterprise Income Tax ("**EIT**")		
– Provision for the year	**45,930**	40,317
– Over provision in respect of prior years	**(1,247)**	(1,227)
Deferred tax	**(3,032)**	(4,887)
	41,651	34,203

No provision for Hong Kong profits tax has been made for the years ended 31 December 2017 and 2018 as the Company and its subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% on the estimated assessable profits for both years, except disclosed as follows.

Certain subsidiaries of the Group, being engaged in provision of electricity supply and sale of renewable energy, under the EIT Law and its relevant regulations, are entitled to tax concession of 3-year full exemption and subsequent 3-year 50% exemption commencing from their respective years in which their first operating incomes were derived.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**173,547**	139,619
– Retirement benefits scheme contributions	**16,870**	15,624
Total staff costs	**190,417**	155,243
Amortisation of:		
– Prepaid lease payments	**3,262**	1,720
– Concession intangible assets	**39,551**	29,309
– Other intangible assets	**31,707**	31,005
Depreciation of property, plant and equipment	**73,929**	56,826
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payment	**486**	(66)
Loss on disposal of concession intangible assets	**748**	–
Auditors' remuneration		
– Audit services	**3,475**	3,019
– Other services	**736**	–
Minimum lease payments under operating leases	**8,990**	6,435
Cost of inventories sold	**178,941**	196,724
Gross rental income from investment properties less direct outgoings of approximately HK$637,000 (2017: HK$568,000)	**3,924**	1,548
Gain on sales of properties, net	**(7,424)**	(867)

8. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Profit/(loss) attributable to the owners of the Company, used in the basic and diluted earnings/(loss) per share	**6,646**	(49,111)
	No. of shares	*No. of shares*
	'000	*'000*
Weighted average number of ordinary shares – basic and diluted	**1,596,540**	1,596,540
Earnings/(loss) per share (HK cents):		
Basic	**0.42**	(3.08)
Diluted	**0.42**	(3.08)

For the years ended 31 December 2018 and 2017, diluted earnings/(loss) per share equals to basic earnings/(loss) per share as there was no dilutive potential shares.

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**189,870**	110,014
Less: Loss allowances	**(3,651)**	(3,848)
	186,219	106,166
Other receivables *(note a)*	**116,643**	381,045
Less: Loss allowances	**(7,886)**	(3,204)
	108,757	377,841
Loan receivables *(note b)*	**133,424**	139,327
Less: Loss allowances	**(56,279)**	(54,844)
	77,145	84,483
Deposits and prepayments *(note c)*	**253,723**	63,493
	625,844	631,983

a) Other receivables mainly included the following items:

i) For the year ended 31 December 2017, other receivables mainly included a receivable from disposal of investments in unlisted investment funds, a refund of the trade deposit for purchase of goods and deposit paid for biding for infrastructure construction as below. The remaining balance represented amount receivables from miscellaneous debtors.

A receivable of HK$139.95 million from the disposal of investments in unlisted investment funds (classified as financial assets at fair value through profit or loss in 2017 and classified as available-for-sale investments in 2016).

Other receivables included a refund of the trade deposit for purchase of goods. A subsidiary of the Company entered into a sales contract with an independent third party to purchase the goods. However, the independent third parties failed to provide the goods on delivery date. According to the sales contract and agreed with the independent third party, it would refund the full amount of deposit paid with a compensation to the subsidiary. Total amount of HK$55.4 million (RMB46.1 million) was outstanding as at 31 December 2017. The subsidiary of the Company received the refund subsequent to the reporting period.

A subsidiary of the Company entered into a co-operation agreement with an independent third party to bid for an infrastructure construction. The deposit of HK$120.0 million (equivalent to RMB100.0 million) was paid. At the end of the reporting period, the subsidiary of the Company and the independent third party agreed to terminate the co-operation agreement, and the deposit was refunded in January 2018.

(b) Apart from the loans to Top Vision of HK$43.6 million and other borrowers of HK$11.2 million which were fully impaired, included in loan receivables as at 31 December 2018 were loan to four (2017: four) unrelated parties of HK$78.62 million (2017: HK$84.48 million), which bear fixed interest rate ranging from 4% to 15% per annum. These parties have no recent history of default.

(c) Deposits and prepayments were mainly prepayments and tender deposits paid to independent third parties for construction projects during the year 2018.

10. TRADE AND OTHER RECEIVABLES *(Continued)*

Trade receivables

The Group allows an average credit period of 0 day to 180 days to its customers.

The ageing analysis of the trade receivables, net of loss allowance, as at the end of the reporting period, based on invoice date which approximates the respective revenue recognition date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**143,374**	89,131
91 to 180 days	**23,181**	12,111
181 to 365 days	**11,166**	2,869
Over 1 year	**8,498**	2,055
	186,219	106,166

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**155,710**	101,242
Past due but not impaired		
Within 90 days	**20,829**	–
91 to 180 days	**5,453**	2,869
181 to 365 days	**3,137**	840
Over 1 year	**1,090**	1,215
	186,219	106,166

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**101,222**	85,704
Receipt in advance	**–**	43,242
Construction payables	**69,001**	23,756
Interest payables	**14,016**	13,104
Consideration payable	**–**	2,855
Forward sales deposits received	**–**	4,091
Other tax payables	**–**	9,459
Accrued expenses	**27,004**	20,040
Guarantee deposits from a subcontractor	**2,276**	–
Sewage treatment fees received on behalf of certain government authorities	**1,231**	6,793
Other payables	**82,615**	10,760
	297,365	219,804
Amounts due within one year included under current liabilities	**285,374**	219,804
Amounts due after one year included under non-current liabilities	**11,991**	–
	297,365	219,804

The ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**22,728**	24,510
31 to 90 days	**39,988**	22,736
91 to 180 days	**16,727**	6,187
181 to 365 days	**10,985**	24,415
Over 1 year	**10,794**	7,856
	101,222	85,704

The credit terms of trade payables vary according to the terms agreed with different suppliers. The Group has financial risk management policies in place to ensure that all payables are settled within the time frame agreed with the respective suppliers.

12. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018	2017
	HK$'000	*HK$'000*
Contracted but not provided for:		
– Acquisition of concession intangible assets, and property plant and equipment *(note)*	**337,929**	155,711
– Investment in an associate	**2,220**	–
	340,149	155,711

Note: At 31 December 2018, the amount represented capital commitment contracted but not provided for acquisition of property plant and equipment, concession intangible assets and investment in an associate of HK$337,929,000 (2017:HK$155,711,000) and HK$2,220,000 (2017: Nil), respectively.

13. LITIGATIONS AND ARBITRATION

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

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

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

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

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

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

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

Guangzhou Hyde Environmental Protection Technology Co. Ltd.* (廣州市海德環保科技有限公司) ("**Guangzhou Hyde**") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited* (雲南超越燃氣有限公司) ("**Yunnan Chaoyue Gas**") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("**Deposit**") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("**Project**").

Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands.

The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("**Commission**") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon; and the relevant arbitration fees.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court (the "**Kunming Court**") for civil enforcement on 21 July 2012, and Kunming Court has accepted such application.

On 13 May 2013, Yunnan Chaoyue Gas provided loan repayment plan (the "**Repayment Plan**") to Guangzhou Hyde. On 1 September 2014, Kunming Court has approved the civil enforcement against Yunnan Chaoyue Gas. Up to the date of this announcement, Yunnan Chaoyue Gas has not performed the repayment obligation according to the Repayment Plan.

On 21 August 2017, Guangzhou Hyde, Yunnan Chaoyue Gas, Yunnan Chaoyue Oil & Gas Technology Co., Ltd.* (雲南超越油氣科技有限公司), Yunnan Chaoyue Oil and Gas Exploration Co., Ltd.* (雲南超越油氣勘探有限公司), Yunnan Transcend Pipeline Investment Co., Ltd.* (雲南超越管道投資有限公司) and Yunnan Transcend Energy Co., Ltd.* (雲南超越能源股份有限公司) and Mr. Liu Jinrong (collectively as the "**Guarantors**") entered into a settlement agreement which Yunnan Chaoyue Gas shall pay the Principal and overdue interests to Guangzhou Hyde on or before 31 December 2017 (the "**Settlement Agreement**"). On 14 September 2017, Guangzhou Hyde applied to Kunming Court for the resumption of civil enforcement which adjudged in 2014. Up to the date of this announcement, there was no significant progress on this legal proceeding The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

* The English names are for identification purpose only.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Net profit for the year

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

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

Revenue and gross profit

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

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

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

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

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

Other operating income and expenses

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

Selling and distribution expenses and administrative expenses

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

Finance costs

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

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

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

Impairment loss recognised on other intangible assets and goodwill

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

Share of results from associates

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

Income tax

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

Profit attributable to Owners of the Company

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

Exposure to Fluctuations in Exchange Rates

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

INVESTMENT PROPERTIES

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

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

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

OTHER NON-CURRENT ASSETS

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

INVENTORIES

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

PORTFOLIOS AND PERFORMANCE OF SECURITIES INVESTMENT

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

Name of stock listed on the Stock Exchange	Stock code	Brief description of the business	Number of shares held as at 31 Dec 2018	Effective interest held as at 31 Dec 2018	Initial investment cost *HK$'000*	Market value as at 31 Dec 2018 *HK$'000*	Realised gain/(loss) for the year ended 31 Dec 2018 *HK$'000*	Accumulated unrealised holding gain/(loss) on revaluation *HK$'000*	Percentage to total assets value of the Group as at 31 Dec 2018	Classification	Dividend received/receivable during the year
Common Splendor International Health Industry Group Ltd	286	Securities investments and property development	66,900,000	2.23%	54,155	42,816	(167)	(11,339)	1.20%	FVPL	–
China Best Group Holding Ltd	370	Manufacture and sales of coal, international air and sea freight forwarding and the provision of logistics services as well as trading of securities	157,500,000	3.10%	26,167	31,028	88	4,861	0.87%	FVOCI	–
Dafeng Port Heshun Technology Co. Ltd	8310	Trading business, the provision of integrated logistics freight services and relevant supporting services as well as petrochemicals products storage business.	51,590,000	4.01%	35,143	20,120	(2,828)	(15,023)	0.57%	FVPL	–
Ms Concept Ltd	8447	Provision of catering services in Hong Kong	39,750,000	3.98%	11,062	8,348	331	(2,714)	0.23%	FVPL	–
China Regenerative Medicine International Ltd	8158	Research and development of bio-medical and healthcare products, medical techniques; provision of the production and sales of tissue engineering products and its related by-products; sales and distribution of medical products and equipment.	92,500,000	0.53%	15,367	6,938	–	(8,429)	0.19%	FVOCI	–
Hong Kong Finance Investment Holding Group Ltd	7	Trading of natural resources and petrochemicals; mineral mining, oil and gas exploration and production; the provision of financial services and property investment	7,010,000	0.18%	6,460	6,730	58	270	0.19%	FVPL	–

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

FVPL: Financial asset at fair value through Profit or loss

FVOCI: Financial asset at fair value through other comprehensive income

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

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

TRADE AND OTHER RECEIVABLES

As at 31 December 2018, the Group's trade and other receivables were approximately HK$625.84 million (31 December 2017: HK$631.98 million). These comprised of: (i) trade receivables of HK$186.22 million, (ii) other receivables of HK$108.76 million, (iii) loan receivables of HK$77.15 million and (iv) deposits and prepayments of HK$253.72 million. As at 31 December 2018, trade receivables increased by HK$80.05 million to HK$186.22 million which was in line with the increase of revenue. (31 December 2017: HK$106.17 million). The average turnover period of the trade receivables as at 31 December 2018 were 84 days (31 December 2017: 44 days). The Group allows a credit period of 0 day to 180 days to its customers. The average turnover period of the trade receivables fell within stipulated credit period.

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

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

As at 31 December 2018, deposits and prepayments increased by HK$190.23 million to HK$253.72million (31 December 2017: HK$63.49 million) which mainly represented prepayment of HK$80.38 million for construction projects and deposit of HK$70 million paid for the acquisition of oversea project. Subsequent to the year end, the deposit was fully refunded due to failure to acquire the oversea project.

LIABILITIES AND GEARING

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

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

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

Debt Analysis

	31 December 2018		31 December 2017	
	HK$'000	*%*	*HK$'000*	*%*
Classified by maturity – repayable within one year				
Bank borrowings	**55,362**	**7.93**	70,833	11.62
Other loans	**40,319**	**5.77**	253,586	41.62
	95,681	**13.70**	324,419	53.24
Classified by maturity – repayable more than one year				
Bank borrowings	**57,915**	**8.30**	96,267	15.80
Other loans	**544,725**	**78.00**	188,690	30.96
	602,640	**86.30**	284,957	46.76
Total bank and other borrowings	**698,321**	**100**	609,376	100
Classified by type of loans				
Secured	**113,277**	**16.22**	131,079	21.51
Unsecured	**585,044**	**83.78**	478,297	78.49
	698,321	**100**	609,376	100
Classified by type of interest				
Fixed rate	**625,971**	**89.64**	533,081	87.48
Variable-rate	**10,247**	**1.47**	10,806	1.77
Interest free rate	**62,103**	**8.89**	65,489	10.75
	698,321	**100**	609,376	100

BONDS AND NON-EQUITY FINANCING

The issuance of 2017 bonds

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

Placing of Bond I

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

Placing of Bond II

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

Placing of Bond III

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

Placing of Bond IV

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

Placing of Bond V

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

Placing of Bond VI

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

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

TRADE AND OTHER PAYABLES

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

CAPITAL RAISING AND USE OF PROCEEDS

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

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

TREASURY MANAGEMENT

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

BUSINESS REVIEW

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

Water Supply Business

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

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

Analysis of water supply projects on hand is as follows:

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

Sewage treatment business

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

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

Analysis of sewage treatment projects on hand is as follows:

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

Construction services for water supply and sewage treatment infrastructure

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

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

Exploitation and sale of renewable energy business

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

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

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

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

N/A: Not applicable

Analysis of renewable energy projects on hand as follows:

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

	Project name	Provincial cities in PRC/ Indonesia	Business mode	Equity interest held by Company (%)	Actual/Expected Commencement date of operation	Exclusive right to collect landfill gas expiry in
20	Chengdu City	Sichun	Power generation	49	May 2017	December 2027
21	Xinhua	Hunan	Power generation	100	November 2017	December 2026
22	Zhangjiakou	Hebei	Power generation	70	October 2018	*Note 1*
23	Fengcheng	Jiangxi	Power generation	100	January 2018	March 2032
24	Anqiu City	Shandong	Power generation	100	March 2018	*Note 1*
25	Danzhou	Hainan	Power generation	100	December 2019	*Note 1*
26	Dongyang	Zhejiang	Power generation	90	March 2018	June 2025
27	Haicheng	Liaoning	Power generation	100	June 2019	*Note 1*
28	Anlu	Hubei	Power generation	90	January 2019	February 2030
29	Laizhou	Shandong	Power generation	100	April 2019	February 2028
30	Jakarta TPST	Jakarta	Power generation	94	Febraury 2018	December 2023
31	Guangzhou Huadu	Guangdong	Power generation	100	May 2019	June 2023
32	Zhijiang	Hubei	Power generation	51	December 2019	*Note 1*
33	Nanning	Guangxi	Power generation	100	October 2019	April 2028
34	Ziyang	Sichun	Power generation	49	July 2019	November 2026
35	Hainan Sanya	Hainan	Power generation	100	March 2019	January 2029
36	Lingao	Hainan	Power generation	100	May 2020	*Note 1*

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

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

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

A. Haicheng Landfill Project

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

B. Anlu City Landfill Project

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

C. Laizhou City Landfill Project

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

D. Jiangsu Tangyuan Project

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

E. Guangzhou Huadu Landfill Project

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

F. Zhijiang Landfill Project

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

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

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

H. Ziyang City Landfill Project

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

FORMATION OF RENEWABLE ENERGY PROJECTS AFTER THE YEAR UNDER REVIEW

I. Sanya City Project

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

II. Lingao County Landfill Project

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

OTHER MATERIAL EVENT DURING THE YEAR UNDER REVIEW

(i) Honghu Blue Valley Property

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

(ii) Photovoltaic Power Project

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

(iii) Awarded 5-year Glass Management Contract

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

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

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

(vi) Termination of Disposal of Certain Renewable Energy Projects

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

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

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

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

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

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

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

OTHER MATERIAL EVENTS AFTER THE YEAR UNDER REVIEW

Acquisition of Water Intake Facilities

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

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

The Group's obligations under finance leases, bank loans and other loans of HK$252.16 million in total as at 31 December 2018 (FY2017: HK$114.15 million) were secured by charges over:

(i) property, plant and equipment in which their carrying amount was HK$209.40 million (FY2017: HK$141.28); and

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

EMPLOYEES

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

NO MATERIAL CHANGE

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

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the FY2018. (FY2017: Nil)

CHANGES IN INFORMATION OF DIRECTOR

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

- On 4 September 2018, Mr. Deng Jun Jie ("**Mr. Deng**") has resigned to act as a Chairman, an executive Director and a Chairman of the Nomination Committee of the Company. At the same date, Mr. Lin Yue Hui ("**Mr. Lin**"), currently an executive Director, Chief Executive Officer and a Chairman of Investment Committee of the Company, has been appointed as a Chairman and a Chairman of the Nomination Committee of the Company and Mr. Zhong Wei Guang has been appointed as an executive Director of the Company. Please refer to the announcement of the Company dated 4 September 2018 for further details.

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

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

Save as disclosed above, there are no other significant events affecting the Group after the period under review and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group recognises the importance of transparency and accountability to shareholders. The Board will continually review and enhance its corporate governance practices to ensure that they meet shareholders' expectation and comply with relevant standards. The Board believed that the Company has complied with the code provisions of Corporate Governance Code ("**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**listing rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock exchange**") throughout the FY2018 except for the following deviation:

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

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

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

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

CHAIRMAN'S STATEMENT

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

MARKET REVIEW:

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

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

BUSINESS REVIEW:

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

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

   In 2018, all water supply segment companies attained substantial growth in profit and achieved innovation development of intelligent water supply. Among which, Yingtan Water Supply Group realized stable growth in profit for the year after years of brand resources integration and optimization. It also accelerated smart management and enhanced intelligent water supply through utilization of NB-IOT smart meters. Zhongkuang Construction Group Co. Ltd. (formerly known as "**Jiangxi Hualei Construction Co. Limited**") (**Zhongkuang Construction Group**) was established and a diversified large-scale construction enterprise was formed therewith. Currently, owns various national class-A qualifications. It is rooted in Jiangxi, focuses on Nanchang and gradually develops towards surrounding prefecture-level cities. Outside the province, with Huizhou, Guangdong as the pivot point, opened up the Guangdong-Hong Kong-Macau market and the national market, enhanced its corporate influence and established its own corporate risk control systems. At present, 9 contracted projects are under construction, which realized a great leap in operating profit and represented a prosperous future. Yichun Water Industry Co., Ltd recorded a significant increase in operating profit from major businesses during the year. It proactively facilitated intelligent Internet application, including urban-rural water supply integration, smart fire hydrants and remote meters. Linyi Fenghuang Water Industry Co. Ltd recorded its historical high in operating income. Various newly-established and expansion projects of Jining and Yichun Fangke are under orderly construction and making stable progress.

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

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

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

3. **Operational breakthrough of the glass recycling business**

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

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

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

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

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

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

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

PROSPECTS AND FUTURE PLANS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

There were no purchases, redemptions or sales of the Company's listed securities by the Company or any of its subsidiaries during FY2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the FY2018.

AUDIT COMMITTEE

The Audit Committee of the Company reviewed the annual results including the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters as well as the audited financial statements for the FY2018. The Audit Committee comprises three members including Mr. Wong Siu Keung, Joe, Mr. Guo Chao Tian and Ms. Qiu Na.

SCOPE OF WORK OF CROWE (HK) CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Company's auditor, Crowe (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe (HK) CPA Limited on the preliminary announcement.

ANNUAL GENERAL MEETING

A notice convening the AGM will be published on the websites of the Stock Exchange and the Company and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.chinawaterind.com). The annual report will be dispatched to the shareholders and will be available on websites of the Stock Exchange and the Company in due course.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to my fellow Directors, management and employees for their contributions and dedication to the development of the Group and deep thanks to our shareholders, customers, suppliers and business partners for their continued supports.

By Order of the Board
China Water Industry Group Limited
Mr. Lin Yue Hui
Chairman and CEO

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises Mr. Lin Yue Hui (Chairman and CEO), Mr. Liu Feng, Ms. Chu Yin Yin, Georgiana, Ms. Deng Xiao Ting and Mr. Zhong Wei Guang, all being executive Directors, and Mr. Wong Siu Keung, Joe, Mr. Guo Chao Tian and Ms. Qiu Na, all being independent non-executive Directors.

* *For identification purpose only*