



**GREAT WATER**

# **GREAT WATER** HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 8196



ANNUAL REPORT  
**2020**

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “**Directors**”) of Great Water Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement herein or this report misleading.*



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. XIE Yang (*Chairman & Chief Executive Officer*)  
Mr. HE Xuan Xi

### Non-executive Directors

Ms. GONG Lan Lan

### Independent Non-executive Directors

Ms. BAI Shuang  
Mr. HA Cheng Yong  
Mr. TSE Chi Wai

## BOARD COMMITTEES

### Audit Committee

Mr. TSE Chi Wai (*Chairman*)  
Mr. HA Cheng Yong  
Ms. BAI Shuang

### Remuneration Committee

Mr. HA Cheng Yong (*Chairman*)  
Ms. BAI Shuang  
Mr. XIE Yang

### Nomination Committee

Mr. XIE Yang (*Chairman*)  
Ms. BAI Shuang  
Mr. TSE Chi Wai

### COMPLIANCE OFFICER

Mr. HE Xuan Xi

### COMPANY SECRETARY

Mr. TSUI Kan Chun (*HKICS, HKICPA*)

### AUTHORISED REPRESENTATIVES

Mr. XIE Yang  
Mr. TSUI Kan Chun

### PRINCIPAL BANKERS

Industrial and Commercial Bank of China  
Guangzhou Economic and Technological Development  
District Branch  
No. 2 Xiangxue 2nd Road  
Kaichuang Avenue North  
Luogang District  
Guangzhou City  
PRC

Shanghai Pudong Development Bank  
Guangzhou Branch  
No. 12 Zhujiang Road West  
Tianhe District  
Guangzhou City  
PRC

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 18, Keyan Road  
Science City  
High-tech Industrial Development Zone  
Guangzhou, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite A, 20/F,  
Wah Hen Commercial Centre,  
383 Hennessy Road,  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## AUDITOR

**Ernst & Young**  
*Certified Public Accountants and  
Registered Public Interest Entity Auditor*  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

## COMPANY WEBSITE

[www.greatwater.com.cn](http://www.greatwater.com.cn)

## GEM STOCK CODE

8196

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the “**Board**”) of the Company, I would like to present the annual report of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020.

## ANNUAL REVIEW

The shares of the Company (the “**Shares**”) became listed on the GEM of the Stock Exchange on 9 December 2015 by way of placing (the “**Placing**”) (the “**Listing**”).

In 2020, the global economy has been hit by the sudden outbreak of the new coronavirus disease. As one of the countries severely affected in the early stage, China's economy has been significantly affected by the epidemic from 2020 onwards. Fortunately, since the Chinese government actively responded to the epidemic, the situation was contained and the economy has recovered to some extent in China, however the impact on the whole year was still significant. Under the influence of the epidemic, the operating environment of the Group has become severe.

Relying on the normal operation of projects, the Group maintained a certain level of cash flow income in 2020. Construction of new construction projects cannot commence as scheduled under the influence of epidemic prevention, and the costs of the projects close to completion increase due to the dual requirements of shorter construction period and tightened epidemic prevention measures. Despite the poor performance of Group's revenue and profitability, our scale of operations and number of staff remain stable.

For the year ended 31 December 2020, the revenue of the Group decreased by approximately RMB45,977,000, or approximately 37.8%, to approximately RMB75,624,000 as compared to the year of 2019. For the year ended 31 December 2020, the Group recognised approximately RMB5,742,000 in revenue from the engineering, procurement and construction projects (“**EPC Projects**”), approximately RMB3,194,000 from construction projects other than EPC Projects (“**Construction Projects**”), approximately RMB36,927,000 from equipment projects (“**Equipment Projects**”), and approximately RMB22,737,000 from the development, construction and operating agreement of a sewage treatment project (“**Service Concession Arrangement**”) for the year ended 31 December 2020, compared to approximately RMB20,283,000 from EPC Projects, approximately RMB6,625,000 from Construction Projects, approximately RMB74,108,000 from Equipment Projects and approximately RMB16,101,000 from Service Concession Arrangement for the year of 2019.

Loss attributable to ordinary equity holders for the year ended 31 December 2020 amounted to approximately RMB106,646,000, representing an increase of approximately RMB82,854,000 or approximately 348.2% as compared to loss attributable to ordinary equity holders of approximately RMB23,792,000 for the year of 2019.

The significant decrease in the Group's revenue and deterioration in loss attributable to ordinary equity holders was mainly attributable to (1) a slump in new demands for domestic water supply and water treatment facilities in the PRC due to the negative economic growth across the world as a result of the epidemic; (2) a delay in the commencement of projects since the end of the Spring Festival holidays in 2020 as a result of the epidemic; (3) additional costs for projects in progress, which was required to cope with the dual requirements of epidemic prevention and work schedules concurrently due to a shortage of manpower as a result of the epidemic policies; (4) the absence of the one-off revenue of approximately RMB4,578,000 recorded from the disposal of a subsidiary during the corresponding period last year; and (5) the provision for impairment of certain account receivables, contract assets and prepayments in an aggregate amount of approximately RMB82,580,000 made by the Group on a prudent basis for projects with long ageing.



# CHAIRMAN'S STATEMENT

## OUTLOOK

According to relevant data, China's GDP growth in 2020 will be "negative first and back to positive" until the third quarter, with an annual growth rate of approximately 2.3%. By reasonable extrapolation, the global impact of the epidemic will continue for some time and become as "new normal". Facing this new normal, the Group believes that to prevent direct or indirect operational risks caused by the epidemic, prudent customer selection, cost control, maintaining stable income, and paying attention to cash flow will be the Group's operational priorities in the next few years.

At the same time, with a more stable situation, the Group will actively promote the restart of projects that have delayed under the influence of the epidemic, such as the industrial solid waste treatment equipment project in the east of Guangzhou (廣州東部工業固廢處理設備項目) with a contract amount of approximately RMB47,880,000 and the water treatment engineering project of Pacific Textiles Vietnam (互太越南紡織水處理工程項目) with a contract amount of approximately USD9,000,000. The relevant pre-construction work has been resumed by late 2020, and it is believed that construction will be officially commence in 2021.

On the other hand, the Group also actively looks for new projects. In consideration of the direct and indirect impact of the epidemic, the Group will be more cautious in the selection of customers and projects. For long-term quality customers, the Group invests more resources in continuous follow-up. It is believed that based on many years of mutual trust, the Group has signed new project contracts with such long-term customers with a total amount of more than RMB10 million in 2020. For new customers, in view of the development of the epidemic in China, the Group believes that the state will increase investment in the construction of key cities and new developments of municipal projects. The Group will increase its presence in the Greater Bay Area and strive to participate in more municipal construction projects. At the beginning of 2021, the municipal project for wastewater treatment equipment in the Greater Bay Area that the Group had tendered amounted to more than RMB 100 million, with the letter of acceptance granted to us. This is our first time to work with this project customer. Therefore, the Group will devote more resources to existing industrial customers and future municipal customers in the selection of customers and projects.

Therefore, the directors and management of the Group are cautiously optimistic about the business prospects of the Group in 2021. Since project construction will gradually resume, it is believed that the Group's revenue and profitability will improve in 2021.

In conclusion, the Group considers that the new normal, in light of the global economic downturn and the variation of performance of epidemic prevention and economic recovery among countries, the Group's business strategy in the domestic market and Vietnam market will also be adjusted. The market needs more time to absorb the impact of the epidemic and the Group needs to be more prepared and patient in such period. Meanwhile, as the majority of the Group's business is located in China, by virtue of the Group's confidence in the Chinese government, we believe that a series of measures will be implemented to promote economic recovery in the future, and the Group's judgment on the market and related adjustments are also expected to improve our current operating conditions of in the future. The Group will respond to future challenges with a more stable and pragmatic attitude.

# CHAIRMAN'S STATEMENT

## APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my sincere gratitude to the shareholders of the Company (the “**Shareholders**”), business partners, clients, suppliers and sub-contractors for their continued support to the Group. I would also like to express my heartfelt appreciation to the management and all the staff for their diligence and valuable contribution throughout the year.

Last but not least, the Group sincerely wishes the shareholders of the Group, the management, employees, business partners, customers, suppliers, sub-contractors and the peers of the environmental protection industry healthy and safe.

**Xie Yang**  
*Chairman*

Guangzhou, the PRC  
25 March 2021



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is a provider of wastewater and drinking water treatment engineering services in the People's Republic of China (the "PRC" or "China"). The main business of the Group is the provision of engineering services for wastewater and drinking water treatment facilities. The Group acts either as the contractor, who is responsible for the whole project from launch to final operational management in EPC Projects, or as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for the Equipment Projects. The Group is also engaged in other environmental protection projects ("**Other Environmental Protection Projects**"), provision of operating and maintenance services ("**O&M Projects**") for the customers in connection with the management of waste water treatment and drinking water treatment facilities, as well as consultation services in relation to the improvement of wastewater and drinking water treatment facilities of various constructions.

The Group has acquired a sludge treatment Service Concession Arrangement in a wastewater treatment plant located in Dashadi from Guangzhou Sewage in the third quarter of 2018. The Group, as a contractor, is responsible for the development, construction and operation of the sludge treatment project for a term of 10 years. The construction of the project and the trial operation have been completed and the project passed the official examination in June 2020. The Service Concession Arrangement segment lay a solid foundation for the Group's revenue for the next 5 to 10 years.

## FINANCIAL REVIEW

### Operating revenue

For the year ended 31 December 2020, the Group's operating revenue amounted to approximately RMB75,624,000, representing a decrease of approximately 37.8% or RMB45,977,000 as compared to the year ended 31 December 2019.

### *EPC Projects and Construction Projects*

For the EPC Projects, the Group assumes the role of main contractor in charge of overall project management of building a treatment plant from initiation to commissioning for a predetermined contract amount. As an engineering, procurement and construction contractor, the Group provides engineering design of the treatment facilities, procures necessary materials and appoints sub-contractors to build the facilities. The Group also engages in construction projects related to other environmental protection areas (such as soil remediation project and flue gas treatment project, involving the provision of engineering and procurement services for the project owner).

#### — *Revenue relating to EPC Projects*

For the year ended 31 December 2020, the revenue generated from EPC Projects relating to wastewater and sludge treatment projects under construction and related business was approximately RMB5,742,000 (2019: approximately RMB20,283,000), representing a decrease of approximately 71.7% or RMB14,541,000 over the corresponding period in 2019. The decrease in revenue from EPC Projects for the year ended 31 December 2020 was primarily attributable to the recognition of revenue of approximately RMB2,612,000 in revenue from one large-scale EPC Project and of approximately RMB3,130,000 in revenue from two small-sized EPC Projects. In contrast, the revenue from EPC Projects for the year ended 31 December 2019 was derived from one large-scale EPC Project in the amount of approximately RMB20,283,000.

#### — *Revenue relating to Construction Projects*

For the year ended 31 December 2020, the revenue generated from Construction Projects was approximately RMB3,194,000 (2019: approximately RMB6,625,000), representing a decrease of approximately 51.8% or RMB3,431,000 over the corresponding period in 2019. The decrease in revenue from Construction Projects for the year ended 31 December 2020 was primarily attributable to the recognition of revenue of approximately RMB3,194,000 in revenue from three small-sized Construction Projects. In contrast, the revenue from Construction Projects for the corresponding period in 2019 was derived from seven small-sized Construction Projects in the amount of approximately RMB6,625,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Equipment Projects**

For Equipment Projects, the Group mainly provides procurement services to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, the Group's technical team often needs to work closely with the customer in identifying, evaluating and selecting different equipment options before the procurement team comes into play.

For the year ended 31 December 2020, the revenue generated from Equipment Projects amounted to approximately RMB36,927,000 (2019: approximately RMB74,108,000), representing a decrease of approximately 50.2% or RMB37,181,000 as compared to the corresponding period in 2019. The decrease in revenue from Equipment Projects for the year ended 31 December 2020 was primarily attributable to the recognition of revenue of approximately RMB36,927,000 in revenue from two large-scale Equipment Projects. In contrast, the revenue from Equipment Projects for the corresponding period in 2019 was derived from one large-scale Equipments Projects in the amount of approximately RMB67,998,000 and another three small-sized Equipment Projects in the amount of approximately RMB6,110,000.

## **Service Concession Arrangement**

For Service Concession Arrangement, the Group has acquired a sludge treatment Service Concession Arrangement in a wastewater treatment plant located in Dashadi from Guangzhou Sewage in the third quarter of 2018. The Group, as a contractor, is responsible for the development, construction and operation of the sludge treatment project for a term of 10 years. The construction of the project and the trial operation have been completed and the project passed the official examination in June 2020.

For the year ended 31 December 2020, the revenue generated from the Service Concession Arrangement segment was approximately RMB22,737,000 (2019: approximately RMB16,101,000), representing an increase of approximately 41.2% or RMB6,636,000 as compared to the corresponding period in 2019. The increase in revenue from Service Concession Arrangement for the year ended 31 December 2020 was primarily attributable to the recognition of revenue of approximately RMB9,214,000 in construction work, approximately RMB12,969,000 revenue from service income and approximately RMB554,000 revenue from interest income. In contrast, the revenue for the corresponding period in 2019 was derived from the recognition of revenue of approximately RMB8,937,000 in construction work and approximately RMB7,164,000 revenue from service income of the Service Concession Arrangement.

## **Others**

The revenue under the other segment included revenue attributable to O&M Projects and technical advisory services. As at 31 December 2020, the Group had one sludge treatment O&M project, one wastewater treatment O&M Project and four drinking water treatment O&M Projects on hand.

For the year ended 31 December 2020, the revenue generated from rendering of maintenance services amounted to approximately RMB7,024,000 (2019: approximately RMB4,484,000), representing an increase of approximately 56.6% or RMB2,540,000 as compared to the corresponding period in 2019. The increase was primarily attributable to (i) two technical advisory projects during the year ended 31 December 2020 with revenue contribution of approximately RMB4,830,000 as compared to three technical advisory projects with revenue contribution of approximately RMB1,623,000 in the corresponding period in 2019; and (ii) O&M projects which contributed approximately RMB2,194,000 in revenue during the year ended 31 December 2020 as compared to approximately RMB2,861,000 in the corresponding period in 2019.

## **Other income and gains**

For the year ended 31 December 2020, other income and gains amounted to approximately RMB2,456,000 (2019: approximately RMB8,662,000), representing a decrease of approximately 71.6% or approximately RMB6,206,000 as compared to the corresponding period in 2019. The decrease was primarily attributable to (i) an one-off revenue of approximately RMB4,578,000 recorded by the disposal of a subsidiary during the corresponding year of 2019 while no such revenue was recorded for the year ended 31 December 2020; (ii) decrease in government grants of approximately RMB926,000; and (iii) decrease in fair value gains on investment properties of approximately RMB900,000.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of sales

For the year ended 31 December 2020, the cost of sales of the Group amounted to approximately RMB65,605,000 (2019: approximately RMB102,992,000), representing a decrease of approximately 36.3% or approximately RMB37,387,000 compared to the corresponding period in 2019.

The decrease in cost of sales was mainly due to the decreased operating revenue for the year ended 31 December 2020. The subcontracting costs decreased to approximately RMB10,390,000 for the year ended 31 December 2020 from approximately RMB23,358,000 for the corresponding period in 2019. The material costs decreased to approximately RMB41,292,000 for the year ended 31 December 2020 from approximately RMB66,411,000 for the corresponding period in 2019, representing a decrease of approximately 37.8% or approximately RMB25,119,000 over the corresponding period in 2019.

## Gross profit

For the year ended 31 December 2020, the gross profit of the Group was approximately RMB10,019,000 (2019: approximately RMB18,609,000), representing a decrease of approximately 46.2% or approximately RMB8,590,000 as compared to the corresponding period in 2019. The decrease in gross profit of the Group was mainly due to the fact that the revenue for the year ended 31 December 2020 decreased by approximately 37.8% as compared to the corresponding period in 2019 and the overall lower gross profit margins to approximately 13.2% for the year ended 31 December 2020 as compared to approximately 15.3% the corresponding period in 2019.

## Selling and distribution expenses

For the year ended 31 December 2020, the selling and distribution expenses of the Group amounted to approximately RMB2,191,000 (2019: approximately RM3,020,000), representing a decrease of approximately 27.5% or approximately RMB829,000 compared to the corresponding period in 2019. The decrease in the selling and distribution expenses was mainly due to the decrease in salaries and employee benefit as a result of reducing manpower in the marketing department.

## Administrative expenses

For the year ended 31 December 2020, the administrative expenses of the Group amounted to approximately RMB29,232,000 (2019: approximately RMB29,459,000), representing a decrease of approximately 0.8% or approximately RMB227,000 compared to the corresponding period in 2019.

## Impairment losses on financial and contract assets

For the year ended 31 December 2020, the impairment losses on financial and contract assets amounted to approximately RMB82,580,000 (2019: approximately RM20,158,000) representing an increase of approximately 309.7% or approximately RMB62,422,000 compared to the corresponding period in 2019. The increase in the impairment losses on financial and contract assets was mainly due to (i) the Group provided impairment for the year ended 31 December 2020 in relation to long-aged receivables and contract assets with no historical repayment during the last two years, which was considered the uncertainty of the settlement was high; (ii) significant provision was made in relation to long-aged prepayment which the related projects that had been terminated during the year. The Group is currently negotiating with the counterparties to apply the purchased equipments in other on-going projects of the Group or refund the prepayment; and (iii) to provide higher provision on a prudent basis after considering the impact of uncertainty in the economic environment in the coming future.

## Loss for the year

The loss for the year ended 31 December 2020 amounted to approximately RMB106,646,000 (2019: loss of approximately RMB23,792,000), representing an increase of approximately 348.2% or approximately RMB82,854,000 as compared to the corresponding period in 2019. The increase for the year was mainly due to (i) significant decline in gross profit margin due to the global economic environment downturn; (ii) the absence of the one-off revenue of approximately RMB4,578,000 recorded from the disposal of a subsidiary during the corresponding period last year; and (iii) the provision for impairment of certain account receivables, contract assets and prepayments in an aggregate amount of approximately RMB82,580,000 made by the Group on a prudent basis for projects with long ageing.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil), in order to cope with the future business development of the Group. There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

## CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 9 December 2015, since then there was no change in the capital structure of the Group. The capital of the Company comprises only of ordinary shares.

As at 31 December 2020, the total equity attributable to the shareholders of the Company was approximately RMB91,901,000 (2019: approximately RMB198,932,000). The Group continued to maintain a healthy financial position with cash and cash equivalents amounted to approximately RMB46,611,000 (2019: approximately RMB24,863,000). The Group's net current assets was approximately RMB4,713,000 (2019: approximately RMB157,884,000). Based on the Group's existing cash and cash equivalents on hand and bank facilities available to the Group, the Group has adequate financial resources to fund the working capital required for its business operations in the coming year. There was no hedging for any financial instruments.

During the year ended 31 December 2020, the Group's cash and cash equivalents were mainly denominated in RMB, Hong Kong dollars, VND and US dollars and placed in reputable financial institutions as deposits with maturity dates falling within one year. This is in line with the Group's treasury policy to maintain liquidity of its funds and will continue to contribute stable income to the Group.

As at 31 December 2020, the Group had general banking facilities amounted to approximately RMB67,000,000. The total borrowing drawn down from the banking facilities of the Company as at 31 December 2020 amounted to RMB43,318,000 (2019: RMB45,953,000). The banking facilities were pledged by the Group's land and buildings. For details of the pledged assets, please refer to the paragraph headed "Charges on the Group's Assets" below.

## GEARING RATIO

As at 31 December 2020, the Group's gearing ratio (being the net debt of the Group divided by its total capital plus net debt) was 62% (2019: 50%). Net debt of the Group includes an interest-bearing bank borrowing, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

## SIGNIFICANT INVESTMENTS HELD BY THE GROUP

There was no significant investment held by the Group for the year ended 31 December 2020.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any other material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2020.

## COMMITMENTS

The contractual operating commitments of the Group were primarily related to the purchases of items of equipment for projects. As at 31 December 2020, the Group's contractual operating commitments amounted to approximately RMB30,167,000 (2019: approximately RMB93,190,000).

As at 31 December 2020, there was capital commitment amounting to approximately RMB17,300,000 for the Group (2019: RMB20,400,000).



# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have future plans for material investments and capital assets as at the date of this report.

## CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have material contingent liabilities.

## CHARGES ON THE GROUP'S ASSETS

As at 31 December 2020, the Group's building, investment properties and leasehold land were pledged to secure general banking facilities granted to the Group. Details of charges on the Group's assets are set out in notes 13, 14 and 15 to the consolidated financial statements, respectively.

## FOREIGN EXCHANGE EXPOSURE

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the year ended 31 December 2020, the Group did not hedge any exposure to foreign exchange risk.

## ADVANCES TO AN ENTITY

As at 31 December 2020, the Group did not provide any advances to any entity outside the Group.

## PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDERS

As at 31 December 2020, there was no pledging of Shares by the controlling shareholders of the Company (the "Controlling Shareholders").

## LOAN AGREEMENTS OF THE GROUP

As at 31 December 2020, the Group did not enter into any loan agreement with covenants relating to specific performance of the Controlling Shareholders.

During the year ended 31 December 2020, the Group did not breach any terms of agreement in respect of any loan that is significant to the Group's operations.

## FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

As at 31 December 2020, the Group did not provide any financial assistance and guarantees to affiliated companies of the Group.

## SHARE OPTION SCHEME

As at 31 December 2020, the Group did not adopt any share option scheme.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 84 employees (2019: 89 employees). Employee costs amounted to approximately RMB18.5 million for the year ended 31 December 2020 (2019: approximately RMB21.4 million). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is determined based on their performance.

# MANAGEMENT DISCUSSION AND ANALYSIS

## TRAINING AND SUPPORT FOR DIRECTORS AND EMPLOYEES

The Company recognises the importance of keeping the Directors up to date with latest information of duties and obligations of a director of a company the shares of which are listed on the Stock Exchange and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. As part of the continuous professional development program, the Company has also kept the Directors updated of any material changes in the GEM Listing Rules and corporate governance practices from time to time. Directors are provided with reading materials summarising the duties and responsibilities in acting as directors from time to time to keep the Directors abreast of such duties and responsibilities.

Periodical training will be provided to the employees of the Group in order to maintain and enhance their professional and technical skills. Those trainings will be organised internally by the Group or will involve course and forums organised by external parties.

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

### BUSINESS REVIEW

The business performance of the Group for the year ended 31 December 2020 and the future development of the Group's business are set out in the paragraphs headed "Business review" and "Outlook" respectively under "Management discussion and analysis" section in this report.

An analysis of the Group's performance during the year ended 31 December 2020 using financial performance indicators is provided in the section headed "Management discussion and analysis" in this report.

### CORPORATE REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 15 March 2015.

Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the Listing on the GEM of the Stock Exchange, the Company became the holding company of its subsidiaries comprising the Group on 10 July 2015.

The Shares were listed on GEM on 9 December 2015 by the way of Placing.

### PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The Group is principally engaged in the environmental protection business. Details of the Group's subsidiaries as at 31 December 2020 are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activity during the year ended 31 December 2020.

### RESULTS

The results of the Group for the year ended 31 December 2020 and the financial position of the Group at that date are set out in the consolidated statement on pages 55 to 57.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

### DIVIDEND POLICY

On 28 December 2018, the Company adopted its dividend policy (the "Policy").

The Policy sets out the principles and guidelines that the Company will apply when considering the declaration and payment of dividends to the shareholders of the Company.

Under the Policy, the Company may, subject to the Cayman Companies Law, from time to time in general meeting declare dividends in any currency to be paid to the shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

The Company has not adopted any pre-determined dividend payout ratio.

## REPORT OF THE DIRECTORS

The Board has the discretion to declare dividends to the shareholders of the Company, subject to the articles of the association of the Company and all applicable laws and regulations, taking into account the factors set out below:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of Shareholders;
- taxation considerations;
- any contractual, statutory and regulatory restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

The Board will review the Policy as appropriate from time to time. Any amendments to this Policy must be approved by the Board.

### FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statement is set out on page 134. The summary does not form part of the audited consolidated financial statements.

### SHARE CAPITAL

There were no movements in the Company's share capital during the year.

### RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 58 and on page 133, respectively.

## REPORT OF THE DIRECTORS

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2020 in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

The Group's industrial building is located at No. 18, Keyan Road, Science City, High-tech Industrial Development Zone, Guangzhou, the PRC, and is used for office purposes or is leased to independent third parties for rental purposes. The portion used for office purpose by the Group is stated at cost less accumulated depreciation as the buildings in property, plant and equipment. The remaining portion is stated in fair value as investment properties subsequent to initial recognition. Roma Appraisals Limited has valued the property interests of the Group at RMB53.7 million (including portions of the buildings and investment properties) as at 31 December 2020. Details of the investment properties are set out in note 14 to the consolidated financial statements.

As at 31 December 2020, the valuation amounts of the property interests of the Group were RMB53.7 million, in which the valuation amounts of the Group's building for own use were RMB29.2 million. The Group's building for own use are currently booked at cost. If such assets were recorded based on the valuation amounts as at 31 December 2020, the difference of accumulated depreciation between the two types of calculation was approximately RMB98,000 for the period from 1 January 2020 to 31 December 2020.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the Shareholders. As at 31 December 2020, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB83.9 million.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, sales to the Group's largest customer accounted for 30.1% (2019: 47.7%) of the total revenue. For the year ended 31 December 2020, the percentage of revenue derived from the Group's five largest customers in aggregate was 81.5% (2019: 92.0%).

For the year ended 31 December 2020, purchases from the Group's largest supplier accounted for 10.0% (2019: 12.4%) of the total cost of sales. For the year ended 31 December 2020, purchases from the Group's five largest suppliers in aggregate accounted for 37.6% (2019: 40.0%) of our total cost of sales.

None of the Directors or any of their respective close associates or any Shareholders which to the Directors' best knowledge, own more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers and suppliers during the year ended 31 December 2020.

# REPORT OF THE DIRECTORS

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group.

### Government Policies Risk

The Company is in an industry where regulatory standards play a critical role in influencing the demand for the services. The Company has benefited in the past from the increasing awareness of environmental protection, the heightened wastewater treatment standards in the PRC and the recent PRC economic stimulus plan to increase government spending on infrastructure, including wastewater treatment facilities. However, there can be no assurance that the Company will continue to benefit from these PRC standards, economic stimulus plan, regulations and government policies in the future if there is any change, suspension or withdrawal of such regulations and government policies in the future. Moreover, the PRC government's intentions or announcements should not be regarded as an indication of the future prospects of the industry or the future performance of the Company. Any changes in legislative, regulatory or industrial requirements and government policies in places where operates in and outside the PRC may render certain of its wastewater treatment engineering services redundant or obsolete. Acceptance of new wastewater treatment engineering services may also be affected by the adoption of new government regulations requiring stricter standards. The ability to anticipate changes in regulatory standards and government policies and to develop and introduce water and wastewater treatment processes to keep up with such new regulatory standards and government policies will be significant factors in the Company's ability to grow and to remain competitive.

If the treatment facilities constructed under the EPC Projects or the equipments procured by the Company fail to comply with these standards, laws and regulations, the customers may be exposed to penalties or fines from the regulatory authorities and the Company may be subject to claims, litigation and legal proceedings for breach of customers' requirements and their technical specifications. Such events could materially and adversely affect the business, financial condition and results of operations of the Company.

Furthermore, there can be no assurance that the regulatory requirements for operating in the wastewater treatment engineering industry (including without limitation technological requirements, capital base and qualifications) will not be changed in the future. If there is any such change to the regulatory requirements, the Group may incur additional costs in complying with the new requirements which may adversely affect the business, results of operation and financial condition.

### Intense Competition Risk

Competition in the market for wastewater treatment engineering services is intense. The Company expects to face more intense competition from existing competitors and new market entrants in the future. The Company competes with a variety of companies, some of which may have longer operating histories, more established reputations for the type of project, better technical expertise, better customer service, better pricing, stronger relationships with municipal governments and industrial companies, greater familiarity with local market conditions, larger clientele, larger teams of professional staff and greater financial, technical, marketing and other resources and may be in a better position to develop and expand their range of services and market share. The competitors of the Company may, from time to time, engage in aggressive pricing to gain market share and the Company may be under pressure to offer comparable pricing to maintain its competitiveness. In addition, companies which currently do not compete directly with the Company may expand their business to offer competing wastewater treatment engineering services and the Company cannot give any assurance that they will not compete with it in the future. There is no assurance that the Company will be able to effectively compete with its competitors in winning such projects in the future. If the Company fails to compete successfully against existing or future competitors, the business, financial condition and operating results will be materially and adversely affected.

# REPORT OF THE DIRECTORS

## Risks arising from the Expansion of New Environmental Protection Business

We have developed a professional image as a wastewater and drinking water treatment engineering service provider in the PRC. Recently, we also plan to expand to other fields of environmental protection. However, there can be no assurance that we can remain profitable in these new business areas. Should we fail to effectively meet the challenges arising from these new business areas, such as (i) shortage of technical staff; (ii) significant technical updates; (iii) intensifying competition; and (iv) significant change in relevant regulations and/or government policies in the new business areas, our business, financial condition and results of operations may be materially and adversely affected.

## Change in Preferential Tax Treatment Risk

Under the PRC Enterprise Income Tax (the “EIT”) Law, enterprises in the PRC are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Guangzhou Great Water Environmental Protection Company Limited (廣州中科建禹環保有限公司), being our operating subsidiary in the PRC, was subject to 15% enterprise income tax rate during the year ended 31 December 2020 as a result of its accreditation as a High and New Technology Enterprise by the Guangdong Provincial Science and Technology Department and relevant authorities in the PRC. Our current High and New Technology Enterprises certificate was renewed in October 2018 and is effective for a period of three years.

There is no assurance that the current policies in the PRC with respect to the preferential tax treatment the Company currently enjoys will not be unfavourably changed or discontinued, or that the approval for such preferential tax treatment will be granted to the Company in a timely manner. In the event that the termination or expiration of the preferential tax treatment, or the imposition of additional taxes to the Company, its business, financial conditions and results of operations could be adversely affected.

## Manpower and Retention Risk

The Company may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Company. The Company will provide attractive remuneration package to suitable candidates and personnel.

## ENVIRONMENTAL POLICY AND PERFORMANCE

Since the establishment in 2001, the Company has been working in the environmental protection industry in China for 19 years. Emerging from the wastewater and drinking water treatment engineering business, the Group is now gradually expanding to a wider and more comprehensive environmental protection business.

Throughout all these years, sustainability is regarded as an important concept in the Company’s corporate value. Guided by the corporate value and with the aid of a thorough Integrated Management System (the “IMS”), which was certified with the international environmental management system ISO14001:2015 and the quality management system ISO9001:2015 standards in 2016, the Company is not only pursuing continuity in business development, but also, most importantly, contributing to a better environment for the Group and the next generation.

The Company’s mission is to create positive impacts to the environment in China. To achieve this, as an environmental protection engineering services company in China, the Company aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing environmental protection solutions to customers.

# REPORT OF THE DIRECTORS

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the GEM. Compliance procedures are put in place to ensure that the Group's establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2020, the Company has complied with all the relevant laws and regulations in the PRC and Hong Kong.

## KEY RELATIONSHIPS

### Employees

The Company recognises that employees are valuable assets to the Group. Thus the Group provides competitive remuneration package, as well as on-the-job training and development opportunities to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group has also put in place the human resource policy which serves to safeguard terms and conditions of employment as well as the rights and benefits of the employees.

### Suppliers and sub-contractors

The Company has developed long-standing relationships with a number of suppliers and sub-contractors and the Company takes great care to ensure that they share its commitment to quality and ethics. The Company carefully selects its suppliers and sub-contractors and assesses them as the basis of various criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and constructions for the projects of the Company. The Company also requires them to comply with its anti-bribery policy.

### Customers

The Company is committed to be a high quality environmental service provider to its customers. As such, the Company is active in staying connected with its customers in order to find out about customers' needs and expectation. The Company maintains a customers database and has ongoing communications with its current and potential customers through various channels like having face to face meetings and inviting customers to attend site visits to inspect the work-in-progress and finished projects.

# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors during the year under review and up to the date of this report were as follows:

### Executive Directors

Mr. Xie Yang ( <i>Chairman &amp; Chief Executive Officer</i> )	(appointed on 25 March 2015 and re-elected on 11 May 2020)
Mr. He Xuan Xi	(appointed on 27 May 2015 and re-elected on 9 May 2019)

### Non-executive Directors

Ms. Gong Lan Lan	(appointed on 25 March 2015 and re-elected on 11 May 2020)
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### Independent Non-executive Directors

Ms. Bai Shuang	(appointed on 24 November 2015 and re-elected on 9 May 2018)
Mr. Ha Cheng Yong	(appointed on 24 November 2015 and re-elected on 9 May 2018)
Mr. Tse Chi Wai	(appointed on 24 November 2015 and re-elected on 9 May 2019)

Pursuant to the Company's articles of association (the "**Articles of Association**"), one-third of the Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years, provided that either the Company or the non-executive Directors and the independent non-executive Directors may terminate such appointment at any time by giving at least three months' notice in writing to the other.

None of the Directors proposed for re-election at the AGM of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACTS

There was no transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding companies or, its subsidiaries, and its controlling shareholders or any of its subsidiaries was a party subsisted during the year ended 31 December 2020, and no Director or an entity connected with the Director is or was materially interested either directly or indirectly in any such transaction, arrangement or contract.

# REPORT OF THE DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 5.09 under the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## PERMITTED INDEMNITY PROVISION

The Company has arranged appropriate insurance coverage for Directors' liabilities in respect of legal actions against them for corporate activities of the Group. Such insurance coverage has been in force throughout the year ended 31 December 2020.

## MANAGEMENT CONTRACTS

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

## EMOLUMENT POLICY

The Company has established a remuneration committee (the “**Remuneration Committee**”) in compliance with the GEM Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration policy and other remuneration related matters, including benefits-in-kind and other compensation payable to the Directors and senior management of the Company.

Under the remuneration policy of the Company, the Remuneration Committee will consider factors such as corporate and individual performance, salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group in assessing the amount of remuneration payable to the Directors and senior management.

## NON-COMPETITION UNDERTAKINGS

Each of Mr. Xie Yang, Mr. Song Xiao Xing, Ms. Gong Lan Lan, Perfect Wave Holdings Limited, Oceanic Expert Investments Limited, The Thinker Global Limited, Waterman Global Limited, Topman Ventures Limited and Great Time Ventures Limited (collectively, the “**Covenantors**”) has entered into a deed of non-competition (the “**Deed of Non-Competition**”) on 24 November 2015 in favour of the Company (for itself as and as trustee for each of its subsidiaries), pursuant to which the Covenantors have undertaken, jointly and severally, to the Company that they would not, and that their close associates (except any member of the Group) would not, during the restricted period set out below directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the existing core business of the Group (the “**Restricted Business**”). The “restricted period” stated in the Deed of Non-Competition refers to the period during which (i) the Shares remain listed on the Stock Exchange; (ii) the Covenantors and their close associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of the Company; and/or (iii) the Covenantors remain as a director of any member of the Group. Details of the Deed of Non-Competition are set out in the paragraph headed “Non-Competition Undertaking” in the section headed “Relationship with Controlling Shareholders” of the Prospectus.

Each of the Covenantors confirmed to the Company that they have complied with the Deed of Non-Competition for the year ended 31 December 2020.

## REPORT OF THE DIRECTORS

In order to ensure the Covenantors have complied with the Deed of Non-Competition, the following actions have been taken by the Company and the Directors:

- (i) the Company required each Covenantors to give confirmation to the Company on an annual basis as to whether each of them has complied with the Deed of Non-Competition;
- (ii) each of the Covenantors provided to the Company a written confirmation which confirmed their respective compliance with the Deed of Non-Competition for the year ended 31 December 2020 and stated that each of them has not entered into any business which may be in competition with the core business carried on by the Group;
- (iii) the independent non-executive Directors reviewed the compliance of each of the Covenantors with the Deed of Non-Competition during the year ended 31 December 2020 and confirmed to their best knowledge, that the terms of the Deed of Non-Competition has been duly complied with for the year ended 31 December 2020;
- (iv) as at the date of this annual report, the Directors are not aware of any other matters which would affect the compliance of the Deed of Non-Competition for the year ended 31 December 2020.

### COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the Controlling Shareholders nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2020.

### DISCLOSURE OF INTERESTS

#### Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the Group and its associated corporations

As at 31 December 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

#### Long positions in the Shares

Name of director(s)	Capacity	Number of ordinary Shares (Note 1)	Approximate percentage of the total number of Shares in issue
Mr. Xie Yang <sup>(Note 2)</sup>	Interest in controlled corporation	91,350,000 (L)	30.45%

Notes:

1. The letter "L" denotes a long position.
2. These Shares are owned by Oceanic Expert Investments Limited which is wholly-owned by Perfect Wave Holdings Limited, the entire issued share capital of which is in turn beneficially owned by Mr. Xie Yang. Accordingly, Mr. Xie Yang is taken or deemed to be interested in the 91,350,000 Shares held by Oceanic Expert Investments Limited by virtue of the SFO.

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

### The interests of substantial Shareholders and the interests and short position of other persons in the Shares and underlying Shares

As at 31 December 2020, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

#### Long positions in the Shares

Name of shareholder(s)	Capacity	Number of ordinary Shares (Note 1)	Approximate percentage of the total number of Shares in issue
Oceanic Expert Investments Limited <sup>(Note 2)</sup>	Beneficial owner	91,350,000 (L)	30.45%
Perfect Wave Holdings Limited <sup>(Note 2)</sup>	Interest in controlled corporation	91,350,000 (L)	30.45%
Waterman Global Limited <sup>(Note 3)</sup>	Beneficial owner	67,117,500 (L)	22.37%
Keep Leap Investments Limited <sup>(Note 3)</sup>	Interest in controlled corporation	67,117,500 (L)	22.37%
Keep Leap Investments Limited	Beneficial owner	2,732,000 (L)	0.91%
Mr. Zhang Yao <sup>(Note 3)</sup>	Interest in controlled corporation	69,849,500 (L)	23.28%
Great Time Ventures Limited <sup>(Note 4)</sup>	Beneficial owner	44,032,500 (L)	14.68%
Topman Ventures Limited <sup>(Note 4)</sup>	Interest in controlled corporation	44,032,500 (L)	14.68%
Mr. Song Xiao Xing <sup>(Note 4)</sup>	Interest in controlled corporation	44,032,500 (L)	14.68%

Notes:

- The letter "L" denotes a long position.
- Mr. Xie Yang beneficially owns the entire issued share capital of Perfect Wave Holdings Limited which in turn wholly owns Oceanic Expert Investments Limited which held 91,350,000 Shares.
- Ms. Zhang Yao beneficially owns the entire issued share capital of Keep Leap Investments Limited which held 2,732,000 Shares directly and in turn wholly owns Waterman Global Limited which held 67,117,500 Shares.
- Mr. Song Xiao Xing beneficially owns the entire issued share capital of Topman Ventures Limited which in turn wholly owns Great Time Ventures Limited which held 44,032,500 Shares.

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

### AUDIT COMMITTEE

The Company had established its audit committee (the “**Audit Committee**”) on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. Details of the role and work performed by the committee are set out in the Corporate Governance Report.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020 and is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

### PENSION SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for those employees who are eligible to participate in the MPF Scheme. The employees of the Group’s subsidiaries in the PRC are required to participate in a central pension scheme operated by the local municipal government. Particulars of these pension schemes are set out in note 2.4 to the consolidated financial statements. Both the MPF Scheme and central pension scheme in the PRC are funded by the Company and employees in accordance with the relevant laws and regulations in Hong Kong and the PRC.

### RELATED PARTY TRANSACTIONS

There was no loan to and dealing in favor of any Directors of the Company during the year ended 31 December 2020. Details of related party transactions of the Group during the year ended 31 December 2020 are set out in note 35 to the consolidated financial statements. None of the related party transaction constituted connected transaction as defined under Chapter 20 of the GEM Listing Rules. There were no connected transactions of the Group during the year ended 31 December 2020.

### SUFFICIENCY OF PUBLIC FLOAT

During the year ended 31 December 2020, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained sufficient amount of public float as required under the GEM Listing Rules.

### EVENTS AFTER 31 DECEMBER 2020

On 26 January 2021, Guangzhou Great Water Environmental Protection Company Limited (“**Guangzhou Great Water**”), an indirect wholly-owned subsidiary of the Company, disposed of 10% equity interest (the “**Disposal**”) in Guangzhou Environmental Technology Company Limited (“**Guangzhou Environmental Technology**”) to Guangzhou Environment Investment Group Limited (the “**Second Investor**”). As at the date of this report, the capital contributions have yet to be made. The disposal was at nil consideration. Upon completion of the disposal, the outstanding capital contribution of Great Water Guangzhou will be reduced to RMB1,900,000. As all of the relevant applicable percentage ratios in respect of the Disposal are less than 5%, the Disposal does not constitute a notifiable transaction for the Company under Chapter 19 of the GEM Listing Rules.

## REPORT OF THE DIRECTORS

On the same date, Guangzhou Environmental Technology entered into a term loan agreement with Shanghai Pudong Development Bank Co., Ltd., Guangzhou Branch (the “**Lender**”). In connection with the term loan, each of the shareholders of Guangzhou Environmental Technology agreed to guarantee the repayment obligations of Guangzhou Environmental Technology in the amount pro-rated to their respective shareholdings. The pro-rated guaranteed amount for Guangzhou Great Water is RMB13,585,000.

As one of the percentage ratios set out in Rule 19.06 of the GEM Listing Rules in respect of the amount guaranteed by Guangzhou Great Water under the term loan is more than 5% but is less than 25%, the financial assistance provided by Guangzhou Great Water constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

Further details are set out in the announcement of the Company dated 26 January 2021.

### CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled to be held on Monday, 10 May 2021. The register of members of the Company will not be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the forthcoming AGM to be held on Monday, 10 May 2021. However, in order to qualify for attending and voting at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 4 May 2021.

### AUDITOR

Ernst & Young, the current auditor of the Company, will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming AGM. The consolidated financial statements for the year ended 31 December 2020 have been audited by Ernst & Young.

By Order of the Board  
**Xie Yang**  
*Chairman*

25 March 2021



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors. The Board acknowledges the responsibility for reviewing the effectiveness of the Group's internal control and risk management systems. The Board communicates regularly with the Audit Committee and independent advisor to identify, evaluate and manage significant risks associated with the Group's business and operations. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for code provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2020. Mr. Xie Yang (“**Mr. Xie**”) is chairman and the chief executive officer of the Company. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting the roles of chairman and chief executive officer in Mr. Xie is beneficial to the business prospects and management of the Group and the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of two executive Directors (including Mr. Xie), one non-executive Director and three independent non-executive Directors during the year ended 31 December 2020 and therefore has sufficient independent elements in its composition.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the year ended 31 December 2020.

## BOARD OF DIRECTORS

### Board Composition

As at 31 December 2020, the Board comprised of two executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is as follows:

#### Executive Directors

Mr. Xie Yang (*Chairman and the Chief Executive Officer*)  
Mr. He Xuan Xi

#### Non-executive Director

Ms. Gong Lan Lan

#### Independent Non-executive Directors

Ms. Bai Shuang  
Mr. Ha Cheng Yong  
Mr. Tse Chi Wai

The biographical details of the Directors of the Company are set out under the section headed “Biographical Details of Directors and Senior Management” in this report.

# CORPORATE GOVERNANCE REPORT

## **Functions, Roles and Responsibilities of the Board and Management**

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the chief executive officer and senior management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. The abovementioned personnel should report back and obtain prior approval from the Board before making any significant decisions or entering into any significant commitments on the Company's behalf, and they may not exceed any authority given to them by resolutions of the Board or the Company.

The non-executive Directors do not involve general management and day-to-day operation of the Group. However, they will provide advice on strategic direction for the Group in the Board meetings.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board, on issues of strategic direction, policies, development, performance and risk management. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, they scrutinise the Company's performance in achieving corporate goals and objectives and monitor performance reporting. By doing so, they are able to contribute positively to the Company's strategy and policies through independent, constructive and informed comments at Board and committee meetings.

Each Director has confirmed that he/she can give sufficient time and attention to the Company's affairs, and has regularly provided information on the number and nature of offices held in public companies or organisations and other significant commitments, including the identities of such companies or organisations and an indication of the time involved.

## **Permitted Indemnity Provision**

The Company has arranged appropriate insurance coverage for Directors' liabilities in respect of legal actions against them for corporate activities of the Group.

## **Board/Board Committee Meetings**

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year to, among other matters, review past financial and operating performance and discuss the Group's direction and strategy. An agenda and accompanying papers together with all appropriate information will be sent to all Directors at least three days before each Board or committee meeting so as to ensure timely access to relevant information. Appropriate notice of at least 14 days for regular Board meetings and reasonable notice for other Board committee meetings will be given to all Directors, who will all be given an opportunity to attend and include matters in the agenda for discussion. Senior management will be invited to join all Board meetings to enhance communication between the Board and management; the Board and each Director will also have separate and independent access to senior management whenever necessary. The company secretary will take detailed minutes of the meetings and keep records of matters discussed and decisions resolved at the meetings, including any concerns raised or dissenting views expressed by Directors, and the voting results of Board meetings fairly reflect Board consensus. Both draft and final versions of the minutes will be sent to all Directors for their comments and records respectively, within a reasonable time after each meeting, and such minutes will be open for inspection with reasonable advance notice by any Director. Directors are entitled to have access to board papers and related materials, and any queries will be responded to fully.

## CORPORATE GOVERNANCE REPORT

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial Shareholder or Director arise, the matter shall be discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent non-executive Directors with no conflict of interest should be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his/her interest and abstains from voting.

### DIRECTORS' ATTENDANCE AT BOARD/BOARD COMMITTEE AND GENERAL MEETINGS

A summary of all Directors' attendance at the Board and Board committee meetings and general meetings held during the year 2020 are set out in the following table:

Name of Director	Attendance/Number of meetings				Annual general meeting
	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	
Mr. Xie Yang	4/4	N/A	1/1	1/1	1/1
Mr. He Xuan Xi	4/4	N/A	N/A	N/A	1/1
Ms. Gong Lan Lan	4/4	N/A	N/A	N/A	0/1
Ms. Bai Shuang	4/4	5/5	1/1	1/1	0/1
Mr. Ha Cheng Yong	4/4	5/5	N/A	1/1	0/1
Mr. Tse Chi Wai	4/4	5/5	1/1	N/A	0/1

### CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee of the Company has been established. In compliance with code provision D.3 of the CG Code, the Board as a whole is responsible for performing the corporate governance duties including: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND CHIEF EXECUTIVE

Mr. Xie Yang is the chairman of the Board who is primarily responsible for providing leadership to the Board, overseeing the overall operation of the Group and leading and directing the Group's overall business and development strategies. Mr. Xie will also chair the Board and meetings of the nomination committee of the Company (the "**Nomination Committee**") and brief the Board members and Nomination Committee members on the issues arising at the respective meetings to ensure that the Directors receive adequate information in a timely manner which is accurate, clear, complete and reliable. He encourages all Directors to make full and active contribution to the Board's affairs and takes the lead to ensure that the Board acts in the Company's best interest. He aims to ensure constructive relations between executive and non-executive Directors. Mr. Xie is also the chief executive officer of the Company who is primarily responsible for day-to-day management and operation; overseeing risk management; corporate communication and marketing; product development; information technology and accounting matters of the Group. In accordance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group and the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of two executive Directors (including Mr. Xie), one non-executive Director and three independent non-executive Directors during the year ended 31 December 2020 and therefore has sufficient independent elements in its composition.

Code provision A.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. During the year ended 31 December 2020, one meeting between the chairman of the Board and the non-executive Directors was held.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years, provided that either the Company or the non-executive Directors and the independent non-executive Directors may terminate such appointment at any time by giving at least three months' notice in writing to the other.

By virtue of article 83(3) of the Articles of Association, the Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. In compliance with code provision A.4.2 of the CG Code, any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. The Board has delegated the power to the Nomination Committee to make recommendations to the Board on the appointment and re-appointment of Directors. The responsibilities of the Nomination Committee are set out in the subheading "Nomination Committee" below. Directors to be appointed will have a formal letter of appointment setting out the key terms and conditions of their appointment.

In compliance with code provision A.4.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Furthermore, pursuant to article 84(1) of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he/she retires and shall be eligible for re-election thereat.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to code provision A.6.5 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Company would arrange and/or introduce suitable training and information for the Directors to ensure they are fully aware of their responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. During the year ended 31 December 2020, the Company had arranged seminars on the GEM Listing Rules, the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Companies Ordinance**”) and the SFO for the Directors. All Directors attended at least one of the seminars.

All Directors, namely Mr. Xie Yang, Mr. He Xuan Xi, Ms. Gong Lan Lan, Ms. Bai Shuang, Mr. Ha Cheng Yong and Mr. Tse Chi Wai, have confirmed that they had participated in continuous professional development by attending seminars and reading materials during the year ended 31 December 2020, and have provided a record of their training to the Company, in compliance with code provision A.6.5 of the CG Code.

## BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees are established with written terms of reference, which have complied with the CG Code and are available on the Stock Exchange website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.greatwater.com.cn](http://www.greatwater.com.cn) and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

## AUDIT COMMITTEE

The Company had established the Audit Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the effectiveness of the risk management and internal control systems of the Company, make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and review the Company's financial information.

During the year ended 31 December 2020, the Audit Committee comprised of three independent non-executive Directors, namely, Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Tse Chi Wai is the chairman of the Audit Committee.

During the year ended 31 December 2020, the Audit Committee held five meetings. Those meetings of the Audit Committee was held to review and discuss the consolidated financial statements of the Group and the quarterly, interim and annual results announcements and reports. The Audit Committee is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems and the internal audit function of the Group, as detailed in the section headed “Internal Control and Risk Management” below. All members of the Audit Committee attended the meetings.

## REMUNERATION COMMITTEE

The Company had established the Remuneration Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules.

The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration policy and other remuneration related matters, including benefits-in-kind and other compensation payable to the Directors and senior management.

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Remuneration Committee comprised of one executive Director and two independent non-executive Directors, namely, Mr. Xie Yang, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Ha Cheng Yong is the chairman of the Remuneration Committee.

During the year ended 31 December 2020, one meeting of the Remuneration Committee was held to make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and the senior management and on the establishment of a procedure for developing policy on such remuneration; to determine the remuneration packages of all the executive Directors and the senior management; to assess the performance of the executive Directors and to approve the terms of their service contracts; and to make recommendations to the Board on the remuneration of the independent non-executive Directors. All members of the Remuneration Committee attended the meeting.

### NOMINATION COMMITTEE

The Company had established the Nomination Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. The primary duty of the Nomination Committee is to make recommendations to the Board regarding the structure, size and composition of the Board and candidates to fill vacancies on the Board.

During the year ended 31 December 2020, the Nomination Committee comprised of one executive Director and two independent non-executive Directors, namely, Mr. Xie Yang, Ms. Bai Shung and Mr. Tse Chi Wai. Mr. Xie Yang is the chairman of the Nomination Committee.

During the year ended 31 December 2020, one meeting of the Nomination Committee was held to review the structure and composition of the Board, to determine the policy for nomination of Directors, and to review and make recommendations to the Board on adoption of the Board diversity policy. All members of the Nomination Committee attended the meeting.

The Board adopted the view of Board diversity approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board has in its composition a balance of skills, expertise, qualifications, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs. The Board will consider a number of aspects when selecting candidates, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will ultimately be based on merit and the contribution that the selected candidates will bring to the Board, having due regard for the benefits of diversity to the Board.

### NOMINATION POLICY

On 28 December 2018, the Company adopted a nomination policy (the "**Policy**").

The Policy applies to the nomination and appointment of Directors.

The Policy:

- sets out the criteria and process in the nomination and appointment of directors of the Company;
- ensures that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company; and
- ensures the Board continuity and appropriate leadership at Board level.

# CORPORATE GOVERNANCE REPORT

In evaluating and selecting any candidate for directorship, the following factors should be considered:

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

Notwithstanding that the Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee of the Company, the ultimate responsibility for selection and appointment of directors of the Company rests with the entire Board.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

## **DIVERSITY POLICY**

On 28 December 2018, the Company has adopted a diversity policy.

The diversity policy applies to the Board.

The Company believes that diversity at the Board level is good for corporate governance and enhances the effectiveness of the Board.

Board nomination and appointments will be made on merit basis based on its business needs from time to time having regards to the Policy while taking into account diversity.

Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

# CORPORATE GOVERNANCE REPORT

## SAFETY COMMITTEE

The Company has established the safety committee (the “**Safety Committee**”) in March 2013 which is currently chaired by Mr. Xie Yang and co-managed by Mr. Feng Huan (the Group’s vice general manager) and Ms. Chen Shao Juan (the head of human resources and administration department). A Safety Committee meeting is held on a quarterly basis for the purpose of setting strategic guidelines for our safety department to (i) manage occupational health and safety measures relating to our operation; and (ii) monitor the implementation of safety management for the Group. We also designate one safety supervisor to monitor on-site safety management and report any non-compliance to the project manager who will report to the Safety Committee.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board is responsible for overseeing the preparation of financial statements on an on-going concern basis, with supporting assumptions or qualifications as necessary, for each financial period with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for the financial year.

Management of the Company has provided explanation and information to the Board to enable the Board to make an informed assessment of financial and other information put before the Board for approval. This includes monthly management updates to the Board, with a balanced, understandable and sufficiently detailed assessment of the Company’s performance, position and prospects, enabling the Board and each Director to discharge their duties under the GEM Listing Rules.

The Group accounts are prepared in accordance with the GEM Listing Rules, the Companies Ordinance, all relevant statutory requirements and applicable accounting standards. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. The Directors endeavor to ensure a balanced, clear and understandable assessment of the Group’s position and prospects in the annual reports, interim reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules and the Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The responsibility of the Company’s auditor, Ernst & Young, is set out in the section headed “Independent Auditor’s Report” on pages 52 to 54 of this report.

### Internal Control and Risk Management

The Board acknowledges its responsibility for maintaining a sound and effective risk management and internal control systems, and reviewing their effectiveness to safeguard the Company’s assets and shareholders’ interests. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The day-to-day risk management process of the Group, including the process to identify, evaluate and manage significant risks, is coordinated and facilitated by the compliance officer of the Company, Mr. He Xuan Xi, and is overseen by the chief executive officer of the Company, Mr. Xie Yang. The Group has established an internal audit team to conduct internal risk evaluation and review in respect of the Group’s business risks, financial risks, compliance risks as well as operational and other risks by submitting relevant reports to the Audit Committee and the Board. Meanwhile, the Audit Committee of the Group also assists the Board by providing independent view of the effectiveness of the financial reporting process and internal control and risk management systems, and overseeing the audit process.

## CORPORATE GOVERNANCE REPORT

During the year, the internal audit team had reviewed and evaluated the control process and monitored any risk factors. Also, the Group has engaged a professional firm as an independent advisor to hold an annual internal control review and risk management assessment to aid the Group in ensuring the internal controls and risk management systems are functioning adequately.

The Board convened meetings at least annually to discuss business risks, financial risks, compliance risks and operation and other risks. During the year ended 31 December 2020, the Board, through the Audit Committee, has conducted a review of the effectiveness of the risk management and internal control systems, and the internal audit function of the Group, covering all material controls such as financial, operational and compliance controls and risk management functions, and considered that the internal control system and procedures of the Group, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programs and budget, are adequate and effective and have complied with the provisions of the CG Code during the year ended 31 December 2020.

### DISSEMINATION OF INSIDE INFORMATION

The Company has in place a framework for the disclosure of inside information by reference to the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in an appropriate and timely manner, such as steps to ascertain sufficient details, conduct internal assessment of the matter and its likely impact on the Company, seek professional advice where required and verification of the facts. Before the information is fully disclosed to the public, any persons who possess the knowledge of such information must ensure strict confidentiality and must not deal in any of the Company's securities.

### SENIOR MANAGEMENT'S REMUNERATION

The remuneration payment of the senior management of the Group (excluding the Directors) in the year ended 31 December 2020 falls within the following band:

	Number of senior management
RMB356,000 to RMB1,037,000	
The remuneration includes salaries and pension scheme contributions	6

### AUDITOR'S REMUNERATION

The Audit Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal.

Ernst & Young was appointed by the Board as the auditor of the Company. Save for the audit services, Ernst & Young did not provide any non-audit services to the Group during the year ended 31 December 2020. The remuneration paid or payable to Ernst & Young for services rendered for the year ended 31 December 2020 was as follows:

	RMB'000
Audit services	1,305

### COMPANY SECRETARY

Mr. Tsui Kan Chun (**“Mr. Tsui”**), an employee of the Company, was appointed by the Board as the company secretary of the Company (the **“Company Secretary”**) on 27 May 2015. The biographical details of Mr. Tsui are set out under the section headed **“Biographical Details of Directors and Senior Management”** in this report.

## CORPORATE GOVERNANCE REPORT

The primary duties of the Company Secretary include, but are not limited to (a) to ensure the Board procedures are followed and that the activities of the Board are carried out efficiently and effectively; (b) to assist the chairman to prepare agendas and Board papers for meetings and disseminate such documents to the Directors and Board committees in a timely manner; (c) to timely disseminate announcements and information relating to the Group; and (d) to maintain formal minutes of the Board meetings and other Board committee meetings.

Mr. Tsui has confirmed that he had received no less than 15 hours of relevant professional training for the year ended 31 December 2020, in compliance with Rule 5.15 of the GEM Listing Rules.

### COMPLIANCE OFFICER

Mr. He Xuan Xi (“**Mr. He**”) was appointed as the compliance officer of the Company. The biographical details of Mr. He are set out in the section headed “Biographical Details of Directors and Senior Management”.

### SHAREHOLDERS’ RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than the AGM, shall be called an extraordinary general meeting.

To ensure compliance with the CG Code, the notice of the AGM, the annual report and the circular containing information on the proposed resolutions will be sent to Shareholders at least 20 clear business days before the AGM. Voting at the AGM will be taken by way of a poll. An explanation of the detailed procedures of conducting a poll will be provided to the Shareholders at the commencement of the AGM to ensure that the Shareholders are familiar with such procedures.

Poll results will be counted by the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, and will be posted on the websites of the Company and of the Stock Exchange on the day the Shareholders’ meeting is held. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The chairman of the Board as well as the chairmen of the Remuneration Committee, Nomination Committee and Audit Committee, or in their absence, other members of the respective committees, are available to answer questions at the Shareholders’ meetings. The Company will also arrange for the external auditor of the Company to attend the AGM to answer relevant questions if necessary.

Separate resolutions are proposed at Shareholders’ meetings on each substantial issue, including the election of individual Directors.

### SHAREHOLDERS COMMUNICATION POLICY

The Company has established a shareholders communication policy to set out the Company’s procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.

### Rights to convene an extraordinary general meeting

Pursuant to Article 58 of the Articles of Association, any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company’s principal office as set out in the manner below, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

## CORPORATE GOVERNANCE REPORT

The written requisition must state the objects of the meeting, be signed by the requisitionist(s), be marked for the attention of the Board or the Company Secretary and be deposited at the principal place of business of the Company in Hong Kong.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be duly held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may convene a meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to the Shareholders for general meetings varies as follows:

- (a) At least 14 days' notice in writing if the proposal constitutes an ordinary resolution of the Company;
- (b) At least 21 days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in an extraordinary general meeting.

### Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by e-mail to [ir@greatwater.com.cn](mailto:ir@greatwater.com.cn) for the attention of the Company Secretary.

### Right to Put Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). However, Shareholders may follow the procedure set out in the section headed "Rights to convene an extraordinary general meeting" above for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above.

### Right to Propose a Person for Election as a Director

Detailed procedures for a Shareholder to propose a person for election as a Director are available on the Company's website.

## INVESTOR RELATIONS

The Company has established a range of communication channels between itself and the Shareholders, its investors and other stakeholders. These include annual general meetings, the annual, interim and quarterly reports, notices, announcements and circulars and the Company's website at [www.greatwater.com.cn](http://www.greatwater.com.cn).

## CONSTITUTIONAL DOCUMENTS

From the date of the Listing to the year ended 31 December 2020, there had been no significant change in the Company's constitutional documents.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

This is the environmental, social & governance (“ESG”) report prepared by the Board according to appendix 20 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited and complies with the ESG disclosure requirements of “comply or explain” in the ESG reporting guide. The report covers the majority of the Group’s business in China related to ESG for the reporting period from 1 January 2020 to 31 December 2020.

Through the preparation of this ESG report, the Company realises that not only does the report serve as a channel to communicate with stakeholders, but it is also an important tool to summarise the Company’s sustainability performance and to aid in evaluating its sustainability practice. Furthermore, disclosing the environmental key performance indicators (“KPIs”) via this report further helps us to track our performance systematically. Therefore, the Company will continue this ESG reporting as part of the strategy to improve the Company’s sustainability performance continuously.

For any feedback on the Company’s ESG report, please email to [ir@greatwater.com.cn](mailto:ir@greatwater.com.cn).

## SUSTAINABILITY MANAGEMENT

Since the establishment in 2001, the core business of the Company is to help clients of the Group in China to reduce environmental emissions for the protection of the environment. Emerging from the wastewater and drinking water treatment engineering business, the Group is now gradually expanding to a wider and more comprehensive environmental protection business, including soil remediation, solid and hazardous wastes management, sludge treatment, air pollutants treatment, as well as integrated environmental services.

Throughout the 19 years of the history of the Group, the concept of sustainability has been deeply ingrained in the Company’s corporate value. Guided by its corporate value and with the aid of a thorough Integrated Management System (“IMS”), which is in conformity with the international environmental management system ISO14001:2015 and quality management system ISO9001:2015 standards starting from 2016, the Company not only focuses on pursuing continuous success in business development for the Group, but more importantly, cares for a better environment and the needs of the next generation.

## STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The Company places great emphasis on stakeholder engagement as it believes meeting the expectations of the stakeholders is crucial to the future of its business. Hence, their feedbacks play a crucial role in formulating the future sustainability strategy. Through multiple communication channels, including the annual general meetings, the corporate website, the dedicated customer services channels, and through the internal communication channels for employees, the Board will listen and respond to stakeholders’ concerns related to the performance in the ESG areas.

## OUR PEOPLE

Employees are the most valuable assets as the Company fully relies on them to carry out its business activities. With the business principle of “improve ourselves, improve the environment, and improve the world”, the Company understands that it is fundamental to continuously better itself first before it can improve others. Therefore, the Company pays the upmost care about its employees and strives to provide a pleasant workplace where people are valued and treasured.

### Rights and benefits of employees

The Company gives competitive remuneration packages to the Company’s employees in line with the market, and ensure that the Company is in full compliance with all applicable laws and regulations related to employment including compensation and dismissal, working hours, and wages in China. The Company has developed a comprehensive “Human Resource Management Policy” and an “Employee Handbook”, both of which detail all the necessary rules and procedures related to human resources management.

A number of benefits and welfares are provided to the employees based on different needs and characteristics of their job duties. For example, subsidies are given to employees who unavoidably have to work in challenging working conditions with unpleasant odour or high temperature outdoor working environments; allowances and subsidies are given to employees to compensate for any work-related and living expenses such as transportation, meals, and telecommunications.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

During the recruitment of employees, the Company upholds the principles of equal opportunity, anti-discrimination, and diversity to ensure a fair recruitment process is applied to all candidates, so that only the most suitable candidate is selected and promoted. Likewise, through its comprehensive “Performance Appraisal System” led by the Appraisal Committee, the performances of employees are reviewed regularly. Staff members are rewarded and promoted fairly based on their contributions and work performance. In addition, various kinds of bonuses are offered to employees as rewards for their outstanding performance, contribution to the Company, and safety performance.

When employees resign or upon dismissal by the employment unit due to redundancy, the reasons for resignation and time of departure are required to be provided. After responsible department head and the human resources department approve the dismissal, the employment contract can be terminated.

The Group has regulated working hours and forbade forced labour or forced overtime work as set out in the employment agreements. Moreover, the Group has established the rest periods system according to national laws and regulations. Employees are entitled to national statutory holidays, paid annual leave, marriage leave, maternity leave and nursery leave, compassionate leave, etc. during their term of employment in the Company.

The Company also strongly prohibits any child and forced labour in our workplace, and ensures that the employees work consensually. The Company did not breach any relevant laws and regulation in respect of employment and child or forced labour practices in 2020.

## Training and development

The Company has developed an “Employee Training Management System” to manage all training related activities for different levels of staff within the Company, with the following objectives:

- To establish a corporate culture of continuous learning and development;
- Properly manage all training with the Company and align them with the developments of the Company;
- Continuously develop employees’ knowledge base;
- Strengthen staff technical skills;
- Raise overall quality of the business; and
- Increase the Company’s competitiveness and internal bonding.

Based on the results of training needs surveys and assessments, corresponding monthly and annual training plans are designed for each employee. Various types of training, including new hire training, soft skills training, technical training, and job-specific training, are provided in order to cater for the needs of employees and the Group’s internal strategic plan. The Company also places emphasis on self-learning, and encourages employees to continuously study. Rewards are given to employees who acquire relevant qualifications from further education.

For the career development at the Company, all employees are provided equal opportunity in promotion based on appraisal on their work performance. Apart from performance, as a means of promoting learning and education, employees also need to attain a certain number of training hours per year in order to be promoted.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

## Occupational health and safety

The Company does its utmost to safeguard the workplace safety of its employees. “Safety comes first, emphasis on precaution” is the Company’s motto. In order to achieve this, the Company has established a Safety Management System to govern the identification, implementation, and operation of all necessary safety measures. The Safety Management System stresses the importance of safety prevention and education in order to prevent potential safety hazards.

A Safety Committee, which comprised of senior management and staff members who had received professional safety training, oversees the implementation of safety measures in the Company. The Safety Committee holds meetings regularly to evaluate the performance of the Company in safety, and continuously review its safety management policies.

Out of all identified safety risks in a working environment, the Company pays particular attention to fire hazard and is determined to raise employees’ awareness towards fire safety in the workplace. The Company has fire safety training for all employees, and conducts fire drills from time to time to practise and review its emergency response to fire hazard.

There are also potential safety hazards in our research and development (“R&D”) laboratory during handling of chemicals and when conducting experiments. The Company has established a “Laboratory Management Plan” which provides rules and procedures to govern the safety of laboratories. This Plan covers areas such as chemical and hazardous waste handling, fire and explosion emergency response, and staff injuries. For example, the Company has strict procedures for handling toxic chemicals, and has prepared the Material Safety Data Sheet (“MSDS”) for all the chemicals involved in the R&D laboratory, to ensure that the staff members who handle the chemicals are well aware of the potential hazards (health, fire, reactivity, and environmental), and understand how to work safely with the chemical products. To ensure employees’ work safety, safety training and proper personal protective equipment are provided. Hazardous wastes are treated with special cares and in lines with the necessary instructions such that they can only be discharged/disposed of safely, so as to bring the least harm to people and the environment. There was no breach of relevant laws and regulations by the Company relating to provision of safe working environment and protecting employees from occupational hazards during 2020.

Likewise, during the construction of treatment facilities for the Group’s clients, safety always comes first. To this end, sub-contractors are required to sign a safety agreement which commits them to complying with the Company’s safety requirements, including safety risk identification and evaluation, safety training and inspection, etc.

## THE BUSINESS

The Company performs the activities based on the business principles of “Being practical, hard-working, innovative and to serve”. The success of the Company’s business is built upon the mutual trust with its business partners. To continue the success, maintaining good relationships with its business partners and upholding integrity in conducting businesses are indispensable. The following sections will discuss how the Company puts the beliefs into practices.

### Integrity in business

The Company adheres to ethical principles when conducting its business activities. Strict ethical rules, policies, and guidance especially on fair competition, anti-corruption, and conflict-of-interest are stipulated in the Employee Handbook and effectively implemented. A whistle-blower system has been put in place which allows employees to directly report on any corruption acts, misconduct, or malpractice related to the Company to relevant personnel for investigation if necessary. The head of human resources directly handles the report of the investigation, and initiates further action by the Board where appropriate. Furthermore, the Audit Committee of the Company holds regular meetings to safeguard the integrity of the Company.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

## ***Fair competition***

The Company pursues a fair and honest competition with its competitors in the market, and strictly complies with relevant fair competition laws and regulations. Any violation of the Company's policies or the laws will lead to penalties and legal liabilities. In particular, the Company prohibits any price-fixing, market allocation, and deceptive or unfair advertisement. The Company also ensures fair competition among suppliers and sub-contractors, and prohibits any unfair form of termination of the contractual relationships with them.

## ***Anti-corruption***

The Company forbids any form of bribery to/from suppliers and customers as stated in the related laws and regulations. Suppliers are required to sign agreements to acknowledge and agree to comply with the Company's "Anti-bribery Policy". The policy also forbids employees to receive any benefits from the Company's business partners for any advantages or favours in the business. There was no breach of any relevant law and regulation relating to bribery, extortion, fraud and money laundering by the Company during 2020. The Company did not breach any relevant laws and regulations in respect of anti-corruption.

## ***Conflict of interests***

Employees, who are involved in the Company's business operations, are restricted from conducting any insider trading of the Company's stock, or from disclosing any insider information which allows the public to benefit from investing into the Company's stock, or affect the trading price of the stock.

## **Supplier and sub-contractor management**

The Company values highly the quality and performance of our suppliers and subcontractors. Following the "Procurement Control Procedure", the Company performs supplier assessment for all potential suppliers, and conducts annual assessment for existing suppliers to ensure their supplies and services fulfil our expectations. Apart from the consideration of quality and cost, the Company also takes into consideration heavily the environmental and safety aspects of raw materials procured from or used by the suppliers. For example, the Company always opts for raw materials that are more environmentally friendly, monitors the safety conditions of raw material storage, and reviews the working environment and labour conditions during the assessment.

The Company implements a "Sub-Contractor Management System" for the selection and management of the sub-contractors. Through the system, only qualified parties with good reputation, strong technical expertise, competence, and with good management records are selected and assigned for the work. Our engineering department is responsible for managing the sub-contractors for the execution of the projects and ensures the quality of the work can meet the required standards.

## **Customer-centred business**

The Company strives to pursue excellence in our products and services, with the aim of achieving maximum customer satisfaction. Apart from providing the best support to customers on their environmental issues in their business operations, the Company has also developed a systematic approach on quality management following the international standard ISO9001, and has set up procedures from project design to after-sales service. For example, a warranty is provided to ensure that the installed wastewater treatment facilities are operated appropriately and effluent quality meets the government standards.

A customer satisfaction survey is conducted annually to continuously check if the Company's products and services can meet customers' expectations. The valuable opinions obtained are used to review and improve our services. If any complaints were received from customers or any quality issues were identified from regular audits on the product and service quality, the Company would promptly investigate and rectify the problems. By all these means, the Company is determined to pursue continuous improvement in the services.

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

## Protection of privacy and intellectual property

Protection of privacy information is also essential to gain trust from clients. The Company has put policies in place and has an “Intellectual Property Management Regulation” and the “Information Security Management Procedure” to regulate how to collect and handle customers’ information. The Company is also devoted to protecting intellectual property rights. Policies to protect intellectual property rights in areas such as technologies, trademarks, inventions, copyrights, and business secrets are developed for both the Company’s and its customers’ benefits.

There were no breach of relevant laws and regulations relating to health and safety, advertising, labelling, and privacy matters in connection to the products and service provided by the Group during 2020.

## THE ENVIRONMENT

With the corporate mission of “Contribute to the environmental protection in China for a cleaner sky and water”, the Company strives to create positive impacts on the environment as our core business. As an environmental protection engineering service provider, the Company aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing innovative environmental protection solutions to customers.

Our operations are mainly environmental construction, which involve assisting customers to install environmental facilities at their premises. Therefore, in view of our business nature, neither significant environmental emissions are generated, nor extensive use of natural resources is required. Prior to 2020, our major impact on the environment was related to office (the “**Non-environmental operations**”), and the Group progressed to a ten-year operating project as regards the development and construction of a sludge treatment project at a wastewater treatment plant in Dashadi, Guangzhou and another sludge treatment project as well as a three-and-a-half-year operating project at Guangzhou Baiyun Airport in 2020. The two sludge treatment operating projects (the “**Environmental operations**”) have resulted in a surge of the Group’s electricity and water consumption as well as our indirect greenhouse gas emissions for the year, compared to 2019. The relevant impact has been identified with its details set out in the following sections.

Under the IMS which is in conformance to ISO14001 certified Environmental Management System, the Company is committed to utilising resources efficiently, reducing waste generation and minimising negative impacts on the environment within its operations through formulating its goals and corresponding actions.

Target	Practical Action and policies
1. 100% compliance rate of wastewater discharge	<ul style="list-style-type: none"><li>— Strengthen the monitoring of water quality</li><li>— Appoint qualified third-party unit to conduct monthly investigation</li><li>— Ensure meeting regulatory standards before discharge</li></ul>
2. 100% compliance rate of sludge discharge	<ul style="list-style-type: none"><li>— Ensure effective rainproof and leak-proof work</li></ul>
3. 100% correct handling rate of hazardous waste	<ul style="list-style-type: none"><li>— Establish chemical Material Safety Data Sheet (“<b>MSDS</b>”) database</li><li>— Offer training on proper handling of chemicals</li><li>— Provide protective equipment</li></ul>
4. Zero fire accident	<ul style="list-style-type: none"><li>— Configure with sufficient fire-safety equipment</li><li>— Conduct training and fire drills</li><li>— Inspect the power system and circuit periodically</li><li>— Supervise maintenance work closely</li></ul>

## ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

The IMS also sets out the management framework, with relevant rules and procedures for proper control on the activities. The Company further ensures the compliance with all applicable laws and regulations by closely following relevant updates in China. During the year ended 31 December 2020, the Company did not breach any relevant laws and regulations in respect of environmental protection and which relate to air and greenhouse gases emissions, discharges into water and land, and hazardous and non-hazardous wastes generation.

During 2020, the Group has complied with the relevant laws and regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

The Group considers environmental protection and preserving natural resources as an important component of its sustainable and responsible business. The Company has also established an Environmental Action Group, which is responsible for identifying and constantly evaluating environmental issues arising from operations including work carried out in the R&D building, and during the provision of operation and maintenance (“O&M”) for the clients at project sites. The evaluation results act as a base to establish the improvement strategy in pursuing sustainable development.

### Air Emissions & Greenhouse Gas Emissions

Due to the nature of its operation, which is mainly office-based, the Company only generates and emits a small amount of air pollutants, mainly generated by the use of vehicles. During the year ended 31 December 2020 a total of 3.72 kg of air pollutants, including nitrogen oxides (“NOx”), sulphur oxides (“SO<sub>2</sub>”) and particulate matter (“PM”), were emitted.

Air Pollutant	2020 Emission	2019 Emission	Unit
NOx	3.31	3.97	kg
SO <sub>2</sub>	0.14	0.17	kg
PM	0.26	0.28	kg
<b>Total</b>	<b>3.72</b>	<b>4.42</b>	<b>kg</b>

In response to the challenge of climate change, the Company believes that it is its responsibility to cut carbon footprints. Actions and initiatives to reduce the greenhouse gas (“GHG”) emissions are detailed in later sections of this report.

The Group’s main sources of GHG emissions come from the consumption of vehicle fuel, refrigerant, and electricity for the operations. During the year ended 31 December 2020, the Company emitted a total of 11,410.69 tCO<sub>2</sub>e of GHG, with an intensity of 135.84 tCO<sub>2</sub>e per employee. With reference to the GHG inventory, the Group will continue to look for opportunities to lower GHG emissions within the operation.

Greenhouse Gases	2020 Emission	2019 Emission	Unit
Scope 1 — Direct emissions			
Vehicle fuel	42.25	45.19	tCO <sub>2</sub> e
Refrigerant	4,576.00	5,005.00	tCO <sub>2</sub> e
Scope 2 — Energy indirect emissions			
Electricity — Non-environmental operations	130.47	111.66	tCO <sub>2</sub> e
Electricity — Environmental operations	6,661.98	—	tCO <sub>2</sub> e
<b>Total</b>	<b>11,410.69</b>	<b>5,161.85</b>	<b>tCO<sub>2</sub>e</b>
<i>Intensity</i>	135.84	58.00	tCO <sub>2</sub> e per employee

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

## Resource Management

Using resources wisely and responsibly not only helps to lower the operating cost, but also to reduce the carbon footprints. As the Company believes that it is the joint responsibility of all of us to achieve resource utilisation, the Company aims to raise the environmental protection awareness among employees by promoting green office practices such as using recycled paper and posting reminders near switches.

### Energy Usage

The Company is committed to reducing the energy usage and thus the corresponding GHG emissions by promoting the idea of operations in “green” offices and venues to the employees. For instance, signs are placed near the switches to remind employees to switch off electrical appliances when they are not in use.

During the year ended 31 December 2020, the Company consumed a total of 7,829,001.00 kWh of electricity and 17,916.45 litres of vehicle fuel, with an intensity of 87,966.30 kWh per employee and 201.31 litre of vehicle fuel per employee respectively.

Resource	2020 Consumption	2019 Consumption	Unit
Electricity — Non-environmental operations	150,375.00	128,696.00	kWh
Electricity — Environmental operations	7,678,626.00	–	kWh
Electricity — Total	7,829,001.00	128,696.00	kWh
<i>Intensity</i>	87,966.30	1,446.02	kWh per employee
Vehicle fuel	17,916.45	19,162.88	L
<i>Intensity</i>	201.31	215.31	L per employee

### Water Resource

Knowing how precious the Company’s water resource is, it is our responsibility to manage the use of water in an efficient way. In the Company’s premises, signs to encourage water-saving are placed in washrooms to remind the employees to conserve water. During the year ended 31 December 2020, the Company consumed a total of 134,455.70 m<sup>3</sup> of freshwater, with an intensity of 1,510.74 m<sup>3</sup> per employee. Due to the nature of the operations, the Company did not discharge any industrial wastewater.

Water Resource	2020 Consumption	2019 Consumption	Unit
Freshwater — Non-environmental operations	3,062.70	3,047.90	m <sup>3</sup>
Freshwater — Environmental operations	131,397.00	–	m <sup>3</sup>
Freshwater — Total	134,455.70	3,047.90	m <sup>3</sup>
<i>Intensity</i>	1,510.74	34.25	m <sup>3</sup> per employee

# ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

## Packaging Materials

The Company operations involve the use of a limited amount of packaging materials. Major types of packaging consumed by the Company are paper, plastic, and wood. The total amount of packaging materials used during the year ended 31 December 2020 is 0.83 tonnes, with an intensity of 0.01 tonnes per employee.

Packaging Materials	2020 Consumption	2019 Consumption	Unit
Paper	0.43	0.39	tonnes
Plastic	0.01	0.02	tonnes
Wood	0.39	0.95	tonnes
Total	0.83	1.36	tonnes
Intensity	0.01	0.02	tonnes per employee

## Waste Management

The Company has issued a clear guidance regarding the management of both hazardous and non-hazardous wastes. In our office, limited amount of non-hazardous wastes such as paper and domestic waste are collected at designated locations by qualified waste collectors. As the amount of non-hazardous wastes produced are insignificant, the Company will further collaborate with the waste collectors in the future for collection of relevant data on the amount of wastes produced and its intensity. Employees are given sufficient guidance on how to and where to dispose of wastes. In addition, recycling companies are appointed to treat recyclables such as printer ink toner so as to lessen the burden on the landfill.

During the year ended 31 December 2020, the Company did not generate any hazardous waste. Potentially, hazardous waste may be produced from the R&D laboratory during experiments. In case hazardous wastes are produced, they are labelled, stored, treated, and transported with strict compliance with related laws and regulations in China.

## Environmental Protection During Implementing Engineering solution

With the Company's extensive experience in the environmental engineering services and investment in R&D, over the years the Company has devoted its resources to providing over 100 customers in China with an extended range of engineering solutions. These range from wastewater and drinking water treatment to other businesses including soil remediation and waste disposal, with an aim of helping our clients to solve the environmental issues in their operations.

Constructions of all these treatment facilities may cause negative impacts on the environment if not managed properly. By closely following the rules and procedures contained in the IMS, the Company ensures that all construction work is strictly in compliance with the applicable environmental laws and regulations in the China, by the following measures:

- Environmental impact assessment is carried out and relevant approval is obtained prior to the construction of the facilities where required;
- During the construction of the project, environmental monitoring and auditing are conducted to ensure implementation of proper pollution control measures; and
- A final inspection is carried out before the operation of the facilities.

## ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

The Company also provides O&M services to the owners of environmental facilities, where the Company strives to ensure the smooth operation and effectiveness of the facilities in dealing with the environmental issues. For example, the prime objective of O&M services for wastewater treatment facilities is to ensure that the effluent quality meets the government's water quality standard. In doing so, the Company has engaged third-party agents to monitor the effluent quality regularly. Likewise, for handling of sewage sludge from wastewater treatment, to avoid any environmental pollution, special measures such as effective leak-proofing and rain-proofing are put in place to prevent leakage and rainwater from infiltrating into the sludge.

In addition, the Company places high importance on R&D on environmental protection treatment technologies in order to improve the existing technologies, and has continually developed other technologies with higher efficiency and effectiveness. Currently, the Company possesses several patents and will continue to file more patent applications, so as to maintain the Group's competitiveness in the environmental protection treatment market in China.

### THE COMMUNITY

The Company insists that, as a listed public company, it must shoulder our social responsibilities and make contributions to the society, especially in the aspects of society, environment, education and community. Since 2016, the Company has formulated a "Community Investment Policy" and has planned to set up a team for organizing and participating in community activities aiming at making contributions to the community.

Since the beginning of 2020, the world has been affected by the Novel Coronavirus pandemic. In order to ensure the health and safety of our employees, the Group suspended our organization and participation in community activities this year.

Looking forward, we hope that effective vaccines against the Novel Coronavirus would be successfully developed for human inoculation with the pandemic successfully controlled. The Company will continue to invest in the community so as to make contributions to the welfare of the society.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. XIE Yang** (謝楊先生), aged 57, is an executive Director, the Chairman and the chief executive officer of the Company. Mr. Xie is one of the Controlling Shareholders. Mr. Xie is also a director of each of Guangzhou Hongrun Environmental Protection Technology Co., Ltd. (廣州宏潤環保技術有限公司) (“**Hongrun EP**”), Guangzhou Lintao Environmental Protection Technology Co., Ltd. (廣州霖濤環保技術有限公司) (“**Lintao EP**”), Guangzhou Great Water Environmental Protection Co., Ltd. (廣州中科建禹環保有限公司) (“**Guangzhou Great Water**”), Great Water EP Investment (China) Limited (“**Great Water Hong Kong**”), Sino Tactics Limited (“**Sino Tactics**”) and Manford Incorporation Limited (“**Manford**”), all being wholly-owned subsidiaries of the Company. He has over 13 years of experience in wastewater and water treatment engineering service industry in the PRC. Mr. Xie is primarily responsible for the overall management, strategic planning and business development of the Group. He is also the legal representative and general manager of Guangzhou Great Water. Mr. Xie is one of the founding shareholders of Guangzhou Great Water in August 2001. Prior to the establishment of Guangzhou Great Water, Mr. Xie was a shareholder and a director of Guangzhou Sunshine Gas Development Co. Ltd. (廣州陽光燃氣發展有限公司), a company principally engaged in the design, implementation and management of natural gas facilities and pipes from 1996 to 2001, where he was responsible for its overall management, strategic planning and business development.

Mr. Xie graduated from the Hunan Normal University (湖南師範大學), the PRC in July 1981. He further completed his education in political sciences at Central School of China Communist Youth League (中國共產主義青年團中央團校) (currently known as China Youth University of Political Studies (中國青年政治學院)) in January 1988. In November 2003, Mr. Xie was appointed as a visiting professor at Hunan Technology College (湖南科技學院). He is also a senior engineer in the field of environmental engineering recognised by Chinese Academy of Sciences (中國科學院) in November 2004.

As at 31 December 2020, Mr. Xie was interested in 91,350,000 Shares. For details, please refer to the section headed “Report of the Directors — Disclosure of Interests” in this report.

**Mr. HE Xuan Xi** (何炫曦先生), aged 39, is an executive Director and the compliance officer of the Company. Mr. He is primarily responsible for general management and overseeing major affairs of the Group, including project management and strategic development of the Group. Mr. He has over 9 years of experience in accounting and financial management. Mr. He joined the Group as an accountant in January 2007 and was later promoted to finance supervisor in November 2007, finance deputy manager in March 2008, finance manager in January 2009 and assistant to general manager in March 2014. Mr. He graduated from Guangdong Finance and Economics College (廣東財經職業學院大學專科) in July 2005 with a diploma in accountancy. He further obtained a bachelors degree in accountancy from South China University of Technology School of Continuing Education (華南理工大學繼續教育學院) in Guangzhou, the PRC, in January 2011.

## NON-EXECUTIVE DIRECTORS

**Ms. GONG Lan Lan** (龔嵐嵐女士), aged 45, is a non-executive Director. She has served as a director of Guangzhou Great Water since June 2012. Ms. Gong has assumed a non-executive role on the board of Guangzhou Great Water and does not participate in the day-to-day management and operation of the Group. Ms. Gong also gives advice on strategic direction of the Group as a member of the Board. Ms. Gong is also a director of Hongrun EP, Lintao EP, Sino Tactics and Manford. Since September 2007, Ms. Gong has worked as a deputy general manager responsible for general management and day-to-day operation in Shanghai Tengyi Information Technology Co., Ltd. (上海騰一信息技術有限公司) (a company principally engaged in information technology development business). Ms. Gong graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor's degree in corporate management in June 1998. She further obtained a master's degree in accountancy at Shanghai University of Finance and Economics in December 2007.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. BAI Shuang** (白爽女士), aged 49, is an independent non-executive Director. Ms. Bai is a seasoned practising lawyer in the PRC and has more than twenty years practising legal experience in the PRC. She is currently a partner of Beijing Dacheng (Guangzhou) Law Offices (北京大成(廣州)律師事務所) since November 2010. From October 2006 to October 2010, Ms. Bai was a partner of Guangdong Debi Law Offices (廣東德比律師事務所). From October 2001 to October 2006, she worked as a lawyer at Guangdong Kings Law Firm (廣東金領律師事務所). Ms. Bai graduated from Southwest University of Political Science and Law (西南政法大學) with a bachelor's degree in laws in July 1992.

**Mr. HA Cheng Yong** (哈成勇先生), aged 62, is an independent non-executive Director. Mr. Ha has 33 years of experience in research, application of and management regarding chemistry and natural sciences. Since 2018, Mr. Ha has been a council member of the Guangdong Association of Senior Scientists and Technicians, a social organization founded by the Government and designated to promote scientific and technological achievements and to popularize knowledge on science and technology by leveraging the knowledge and experience of former or retired scientists and technologists. During the period from December 2000 to June 2009, Mr. Ha was the deputy head of Guangzhou Chemistry Research Institutes of Chinese Academy of Sciences (中國科學院廣州化學研究所) who was responsible for overseeing chemistry research activities. From December 2001 to May 2009, Mr. Ha served as a managing director of Chinese Academy of Sciences Guangzhou Chemistry Co., Ltd. (中科院廣州化學有限公司), a company principally engaged in the research and development on chemical engineering and other engineering services where he was responsible for the overall management, the strategic development and formulation of research area and direction of the Company. During the period from January 2012 to October 2015, Mr. Ha has served as an assistant to the Dean of Institute of Industry Technology, Guangzhou & Chinese Academy of Sciences, a national academy for natural sciences of the PRC and Mr. Ha was responsible for property investment and supervising the research on the application of polymer materials. During the period between August 2015 and September 2018, Mr. Ha has been the Deputy Chief Officer (副主任) of Yinchuan Technology Innovation & Incubation Center of China Academy of Sciences (a business unit jointly organized by China Academy of Sciences and Yinchuan City Government and designated to improve the transference and transformation of the technological achievements of China Academy of Sciences in Yichuan), mainly responsible for monitoring the whole process of technological achievement transference and providing consultation and training for new technology applications. Since November 1997, Mr. Ha worked as a researcher and was later promoted to tutor for master students at Guangzhou Chemistry Research Institute of Chinese Academy of Sciences. Mr. Ha retired since December 2018.

Mr. Ha graduated from Wuxi Light Industry College (無錫輕工業學院) (now known as Jiangnan University (江南大學)) with a bachelor's degree in industrial chemistry in December 1982. He then obtained a master's degree in forest chemical processing engineering at Institute of Chemical Industry of Forest Products (中國林業科學研究院) in September 1985 and later completed his PhD at the same institute in October 1991. During the period between November 2008 and December 2014, Mr. Ha was an independent director of Xilong Chemical Co., Ltd. (西隴化工股份有限公司) (a company principally engaged in the production, sale, research and development of chemical reagent, a company established in the PRC and listed on the Shenzhen Stock Exchange (stock code: 002584)).

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. TSE Chi Wai** (謝志偉先生), aged 53, is an independent non-executive Director. Mr. Tse has over thirty years of experience in areas of auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse graduated from the University of Hong Kong in June 1989 with a bachelor's degree in social sciences. Mr. Tse is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tse is currently an executive director of Jih Sun Financial Holding Company Limited, the shares of which are listed in Taiwan. He is also an independent non-executive director of Hong Kong listed company, China Environmental Technology Holdings Limited (Stock Code: 646). Mr. Tse was an independent non-executive director of Huarong Investment Stock Corporation Limited (Stock Code: 2277) from April 2016 to December 2020. He was an independent non-executive director of Chong Kin Group Holdings Limited (Stock Code: 1609) from January 2018 to August 2018, Winto Group (Holdings) Limited (Stock Code: 8238) from January 2018 to May 2019, Greens Holdings Limited (Stock Code: 1318) from March 2015 to November 2015 and Sunac China Holdings Limited (Stock Code: 1918) from December 2012 to December 2017. Mr. Tse stepped down as an executive director of China Information Technology Development Limited, a company listed on GEM of the Stock Exchange (stock code: 8178) with effect from July 2019.

Save as disclosed above, each of the Directors does not have any relationship with other Directors, senior management or substantial or Controlling Shareholders of the Company.

### SENIOR MANAGEMENT

**Mr. FENG Huan** (馮煥先生), aged 38, is the Group's vice general manager. Mr. Feng joined the Group as the head of our marketing department in January 2016 and was promoted to the Group's vice president in 2017. Mr. Feng is responsible for assisting the Group's general manager in overseeing every aspect of the Group's daily operation. Mr. Feng worked as a sales manager in South China and the top customer manager in China at Alfa Laval Group and Sidel, respectively. He has over 15 years of experience in industrial customer base and the field of engineering. Mr. Feng graduated from Central South University (中南大學) in Hunan in 2006 with a bachelor's degree in chemical engineering and technology.

**Mr. WANG Lei** (王磊先生), aged 38, is the Group's vice general manager, responsible for technical works such as engineering, procurement, design, research and development. Mr. Wang joined the Group in June 2016. He has over 10 years of experience in the consultation, design, research and development, project evaluation, construction management and operational commissioning in the field of environmental protection and drainage. Prior to joining the Group, from June 2007 to June 2016, Mr. Wang worked as the heads of the specialist, design and advisory and evaluation centre departments, as well as the deputy general engineer at the design institute and the head of environmental institute at Guangzhou Huahao Energy Environmental Protection Group Limited (廣州華浩能源環保集團有限公司).

Mr. Wang graduated from Xi'an University of Architecture and Technology (西安建築科技大學) in September 2005 with a bachelor's degree in environmental science. He then obtained a master's degree in municipal engineering at Harbin Institute of Technology (哈爾濱工業大學) in December 2007. Mr. Wang qualified as a registered environmental protection engineer in 2010, a registered utility engineer (water supply and drainage) in 2012 and a registered consulting engineer and senior engineer in 2014 respectively.

**Ms. CHEN Shao Juan** (陳少娟女士), aged 42, is the head of human resources and administration department of the company. Ms. Chen joined the Group as the human resources and administration manager in February 2007. She has over 15 years of human resources and administration experience. Ms. Chen is responsible for overseeing human resources and administration matters of the Group. Prior to joining the Group, from August 2001 to June 2006, she worked as an officer of general management office at Guangdong Zhongke Green Spring Co., Ltd (廣東中科綠源水務有限公司), a company principally engaged in water and wastewater treatment engineering projects, where she was responsible for human resources management.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chen graduated from Guangdong Vocational Polytechnic Normal University (廣東職業技術師範學院) (currently known as the Guangdong Polytechnic Normal University (廣東技術師範學院)) in July 2000 with a diploma in electronic engineering. She further obtained a bachelor's degree in human resources management from Nanjing University of Science and Technology (南京理工大學) in July 2005. Ms. Chen is certified to be a human resources professional admitted by Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in February 2006. She is also certified to be an assistant economist by the Human Resources and Social Security Bureau of Guangzhou Development District, the PRC (廣州開發區人力資源和社會保障局) in February 2012.

**Mr. LENG De Rong (冷德榮先生)**, aged 42, is the head of finance department in China. Mr. Leng joined the Group in May 2014 and is responsible for the Group's financial management in China. Prior to joining the Group, Mr. Leng was responsible for financial management at Tianci Hi-tech Material Co., Ltd. (天賜高新材料股份公司) (a company listed on the Shenzhen Stock exchange (stock code: 2709)) and Doppler Electronic Technologies Co., Ltd. (多浦樂電子科技公司). He has years of experience in financial management at listed companies and high-tech companies. Mr. Leng obtained the qualification of an intermediate accountant in May 2009 and a Chinese certified tax agent in August 2012.

**Mr. TSUI Kan Chun (徐勤進先生)**, aged 47, is our chief financial officer and the company secretary of the Company. Mr. Tsui joined the Group in March 2015. Mr. Tsui was appointed the chief financial officer and the company secretary of the Company on 27 May 2015. He has over 20 years of experience in auditing, finance and accounting. Mr. Tsui is responsible for overseeing the accounting and financial operations of the Group. Prior to joining the Group, from September 2012 to July 2014, he was the company secretary, authorised representative and chief financial officer of Blue Sky Power Holdings Limited (now changed the company name to Beijing Gas Blue Sky Holdings Limited), a company listed on the Main board of the Stock Exchange (stock code: 6828). From May 2007 to July 2012, he worked as a company secretary, authorised representative and group financial controller of Shanghai Tonva Petrochemical Co., Ltd. (now changed the company name to Shanghai Dasheng Agriculture Finance Technology Co., Ltd.), a company listed on the Main board of the Stock Exchange (stock code: 1103).

Mr. Tsui graduated from the University of Wollongong in Australia with a bachelor's degree in accountancy in May 1997. He further obtained a master's degree in corporate governance from Hong Kong Polytechnic University in December 2006. Mr. Tsui is an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the Certified Practising Accountants in Australia and an associate member of the Hong Kong Institute of Chartered Secretaries.

# INDEPENDENT AUDITOR'S REPORT



## To the shareholders of Great Water Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Great Water Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 55 to 133, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS FOR OPINION

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

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Revenue Recognition</i></p> <p>For sales contracts which are bundled sales with equipment, management identified different performance obligations based on its contracts with the customers. For sales involving more than one performance obligations, management allocate the transaction price to these performance obligations based on relative standalone selling prices. As the standalone selling prices are not readily observable in the market, management has exercised significant judgment to determine the relevant transaction prices based on expected cost plus a margin approach. Margins are determined considering various factors (e.g. the construction scale, technique, schedule) which involve a significant degree of management judgement.</p> <p>Whilst revenue from contract work is recognised progressively over time using the input method. The percentage of completion was calculated based on costs incurred for work performed compared to the estimated total contract costs.</p> <p>As these contracts sometimes span over reporting periods, changes in the estimate of total contract costs or the inappropriate recording of costs around the year end could result in material amounts of revenue being recorded in the incorrect period.</p> <p>The related disclosures are included in “Revenue recognition” of “2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” and note 5 to the consolidated financial statements.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>• Evaluating the design, implementation and operating effectiveness of key internal controls over revenue recognition progress to ascertain the effectiveness of the internal control;</li><li>• Inspecting the terms and conditions of significant contracts to assess whether the identification of performance obligations and allocation of transaction prices are in accordance with the Group’s accounting policies, with reference to the requirements of the prevailing accounting standards;</li><li>• Conducting site visits to a selection of projects in progress as at the year end, physically inspecting the progress of individual projects and discussing with the Group’s management and project managers the physical status of the projects in progress with reference to the specifications in the contracts;</li><li>• Inquiring with the engineer of the Group about the technique for the construction contracts and challenging the margin by comparing the historical and existing projects of the Group;</li><li>• Reviewing the management’s expected cost budget by checking the signed contracts with suppliers and the budget base of labour and overhead and comparing the actual costs incurred with the budgeted contract costs for the selected samples of construction contracts;</li><li>• Checking the incurred cost documentations, including the material acceptance notes, final completion notes, labour and overhead calculation worksheets, purchase invoices and bank slips to ensure the cost was recorded in the proper period; and</li><li>• Checking the calculation of revenue recognition based on the costs incurred towards satisfying the relative performance obligation.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment provision of trade receivables and contract assets</i></p> <p>The Group's trade receivables and contract assets amounted to RMB146 million, representing approximately 64% of the Group's current assets as at 31 December 2020.</p> <p>Loss allowances for trade receivables and contract assets are based on management's estimate of the lifetime expected credit losses ("ECL") to be incurred, which is estimated by taking into account the past events, current conditions and forecasts of future economic conditions (e.g., credit loss experience, ageing of trade receivables, customers' repayment histories and financial positions). The Group needs to group receivables and contract assets into various customer segments that have similar credit risk patterns and considers how it can incorporate forward-looking information into its historical customer collectability rate rates, in which a significant degree of management judgement is involved.</p> <p>The related disclosures are included in notes 20 and 21 to the consolidated financial statements.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>• Reviewing the ECL model prepared by the management and the relevant disclosures;</li><li>• Evaluating the Group's credit control policy and testing controls over the Group's receivable collection and construction projects' acceptance processes;</li><li>• Verifying the customer nature, background, credit standing for each of the material trade receivables and contract assets as at year end by performing public research and making inquiry of major customers, confirming the on-going business relationship and project status by sending letters to corroborate explanations from management;</li><li>• Reviewing the Group's assessment of ECLs at the end of reporting period by checking the correctness of the ageing of balance, the repayment history of the debtors, and the information related to the forecasts of future economic conditions; and</li><li>• Circularising confirmations and checking bank receipts subsequent to the year end.</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Mee Kwan, Helena.

### **Ernst & Young**

*Certified Public Accountants*

22/F CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

25 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
REVENUE	5	<b>75,624</b>	121,601
Cost of sales		<b>(65,605)</b>	(102,992)
Gross profit		<b>10,019</b>	18,609
Other income and gains	5	<b>2,456</b>	8,662
Selling and distribution expenses		<b>(2,191)</b>	(3,020)
Administrative expenses		<b>(29,232)</b>	(29,459)
Impairment losses on financial and contract assets	6	<b>(82,580)</b>	(20,158)
Other expenses		<b>(835)</b>	(10)
Finance costs	7	<b>(2,490)</b>	(3,395)
LOSS BEFORE TAX	6	<b>(104,853)</b>	(28,771)
Income tax credit/(expense)	10	<b>(1,793)</b>	4,979
LOSS FOR THE YEAR		<b>(106,646)</b>	(23,792)
Attributable to:			
Owners of the parent		<b>(106,646)</b>	(24,157)
Non-controlling interests		–	365
		<b>(106,646)</b>	(23,792)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	<b>RMB(0.36)</b>	RMB(0.08)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<b>(385)</b>	900
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		<b>(385)</b>	900
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		<b>(385)</b>	900
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<b>(107,031)</b>	(22,892)
Attributable to:			
Owners of the parent		<b>(107,031)</b>	(23,257)
Non-controlling interests		–	365
		<b>(107,031)</b>	(22,892)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	<b>13,065</b>	15,867
Investment properties	14	<b>24,500</b>	24,900
Right-of-use assets	15(a)	<b>414</b>	436
Other intangible assets	16	<b>1,741</b>	2,456
Receivables under a service concession arrangement	17	<b>51,190</b>	–
Equity investments designated at fair value through other comprehensive income	18	<b>1,500</b>	1,500
<b>Total non-current assets</b>		<b>92,410</b>	45,159
<b>CURRENT ASSETS</b>			
Inventories	19	<b>11,328</b>	101
Receivables under a service concession arrangement	17	<b>6,629</b>	–
Trade and bills receivables	20	<b>95,614</b>	158,528
Contract assets	21	<b>50,611</b>	147,720
Prepayments, other receivables and other assets	22	<b>11,332</b>	53,634
Pledged deposits	23	<b>4,904</b>	2,022
Cash and cash equivalents	23	<b>46,611</b>	24,863
<b>Total current assets</b>		<b>227,029</b>	386,868
<b>CURRENT LIABILITIES</b>			
Trade payables	24	<b>125,625</b>	147,059
Other payables and accruals	25	<b>52,610</b>	35,942
Interest-bearing bank and other borrowings	26	<b>42,875</b>	42,687
Tax payable		<b>1,206</b>	3,296
<b>Total current liabilities</b>		<b>222,316</b>	228,984
<b>NET CURRENT ASSETS</b>		<b>4,713</b>	157,884
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>97,123</b>	203,043
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	26	<b>545</b>	3,317
Deferred tax liabilities	27	<b>4,683</b>	800
<b>Total non-current liabilities</b>		<b>5,228</b>	4,117
<b>Net assets</b>		<b>91,895</b>	198,926

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Share capital	28	<b>2,397</b>	2,397
Other reserves	29	<b>89,504</b>	196,535
		<b>91,901</b>	198,932
Non-controlling interests		<b>(6)</b>	(6)
Total equity		<b>91,895</b>	198,926

**Xie Yang**  
*Director*

**He Xuan Xi**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Share premium account	Merger reserve <sup>^</sup>	Asset revaluation reserve	Statutory surplus reserve <sup>#</sup>	Exchange fluctuation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	2,397	98,818	(13,830)	9,134	15,029	3,422	107,219	222,189	(371)	221,818
Profit/(loss) for the year	-	-	-	-	-	-	(24,157)	(24,157)	365	(23,792)
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	-	-	-	-	-	900	-	900	-	900
Total comprehensive income/(loss) for the year	-	-	-	-	-	900	(24,157)	(23,257)	365	(22,892)
At 31 December 2019	2,397	98,818	(13,830)	9,134	15,029	4,322	83,062	198,932	(6)	198,926

	Attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Share premium account	Merger reserve <sup>^</sup>	Asset revaluation reserve	Statutory surplus reserve <sup>#</sup>	Exchange fluctuation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	2,397	98,818*	(13,830)*	9,134*	15,029*	4,322*	83,062*	198,932	(6)	198,926
Loss for the year	-	-	-	-	-	-	(106,646)	(106,646)	-	(106,646)
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(385)	-	(385)	-	(385)
Total comprehensive loss for the year	-	-	-	-	-	(385)	(106,646)	(107,031)	-	(107,031)
At 31 December 2020	2,397	98,818*	(13,830)*	9,134*	15,029*	3,937*	(23,584)*	91,901	(6)	91,895

Notes:

\* These reserve accounts comprise the consolidated reserves of RMB89,504,000 (2019: RMB196,535,000) in the consolidated statement of financial position.

<sup>^</sup> The merger reserve of the Group represents the capital contributions from the equity holders of certain subsidiaries now comprising the Group before the completion of the Group's reorganisation (the "Reorganisation") which was completed on 10 July 2015. The Reorganisation only involved the addition of new holding entities on top of Great Water Guangzhou Environmental Protection Co., Ltd., the then holding company of the Group, and has not resulted in any change of economic substances.

<sup>#</sup> Pursuant to the relevant laws and regulations relating to foreign investment enterprises, a portion of the profits of certain subsidiaries in the People's Republic of China (the "PRC") is required to be transferred to the PRC statutory surplus reserve which is restricted as to use. These PRC entities are not required to make any further transfer when the amount of the PRC statutory surplus reserve reaches 50% of their registered capital. The PRC statutory surplus reserve can be used to offset their accumulated losses or to increase their registered capital, provided the remaining balance of the PRC statutory surplus reserve is not less than 25% of the registered capital.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(104,853)</b>	(28,771)
Adjustments for:			
Finance costs	7	<b>2,490</b>	3,395
Bank interest income	5	<b>(99)</b>	(96)
Gain on disposal of items of property, plant and equipment	5	<b>(72)</b>	–
Gain on disposal of a subsidiary	5	–	(4,578)
Depreciation	6	<b>2,663</b>	2,703
Fair value loss/(gains) on investment properties	5	<b>400</b>	(900)
Depreciation of right-of-use assets	6	<b>138</b>	139
Amortisation of other intangible assets	6	<b>715</b>	714
Impairment loss on trade receivables	6	<b>43,804</b>	14,838
Impairment loss on contract assets	6	<b>15,176</b>	5,320
Impairment loss on prepayments, other receivables and other assets	6	<b>23,600</b>	–
		<b>(16,038)</b>	(7,236)
Increase in inventories		<b>(11,227)</b>	–
Decrease in receivables under a service concession arrangement		<b>4,475</b>	–
(Increase)/decrease in trade and bills receivables		<b>19,149</b>	(13,746)
(Increase)/decrease in contract assets		<b>19,639</b>	(19,388)
(Increase)/decrease in deposits and other receivables		<b>18,702</b>	(17,940)
(Increase)/decrease in pledged deposits		<b>(2,882)</b>	1,952
Increase/(decrease) in trade payables		<b>(21,434)</b>	6,627
Increase in other payables and accruals		<b>16,668</b>	29,916
		<b>27,052</b>	(19,815)
Cash from/(used in) operations		<b>27,052</b>	(19,815)
Interest received		<b>99</b>	96
Interest paid		<b>(38)</b>	(47)
Overseas taxes paid		–	420
		<b>27,113</b>	(19,346)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(197)</b>	(65)
Proceeds from disposal of items of property, plant and equipment		<b>403</b>	2,801
Disposal of a subsidiary	30	–	(97)
Purchases of equity investments designated at fair value through other comprehensive income		–	(1,500)
		<b>206</b>	1,139
Net cash flows from investing activities		<b>206</b>	1,139

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <b>RMB'000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans		<b>40,000</b>	46,999
Repayments of bank loans		<b>(42,635)</b>	(66,046)
Interest paid		<b>(2,452)</b>	(3,348)
Principal portion of lease payments	<i>31(b)</i>	<b>(60)</b>	(57)
Net cash flows used in financing activities		<b>(5,147)</b>	(22,452)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>24,863</b>	64,627
Effect of foreign exchange rate changes, net		<b>(424)</b>	895
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>46,611</b>	24,863
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<b>46,611</b>	24,863
Cash and cash equivalents as stated in the consolidated statement of financial position	<i>23</i>	<b>46,611</b>	24,863
Cash and cash equivalents as stated in the consolidated statement of cash flows		<b>46,611</b>	24,863

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 2001, 20/F, Chinachem Johnston Plaza, 186 Johnston Road, Wan Chai, Hong Kong.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in environmental protection business, such as wastewater treatment and soil remediation, through design, construction, operation and maintenance service of related facilities and trading of related equipment.

The shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Exchange") on 9 December 2015 (the "Listing").

### Information about subsidiaries

Particulars of the Company's all subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of business	Issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Great Water EP Investment Limited <sup>*&amp;</sup>	Hong Kong	HK\$60,125,001	100	–	Investment holding
Lintao Environmental Protection Co., Ltd. <sup>^#</sup> (廣州霖濤環保技術有限公司)	PRC/Mainland China	RMB48,000,000	–	100	Design and construction and sale of equipment for wastewater projects
Hongrun Environmental Protection Co., Ltd. <sup>^^#</sup> (廣州宏潤環保技術有限公司)	PRC/Mainland China	RMB48,000,000	–	100	Design and construction and sale of equipment for wastewater projects
Guangzhou Great Water Environmental Protection Co., Ltd. <sup>^^#</sup> ("Great Water Guangzhou") (廣州中科建禹環保有限公司)	PRC/Mainland China	RMB33,333,300	–	100	Design and construction and sale of equipment for environmental protection projects
Trung Khoa Kien Vu Environmental Protection (Vietnam) Company Limited ("Great Water Vietnam") <sup>##</sup>	Vietnam	US\$180,000	–	100	Design and construction for wastewater projects
Strong Wave Group Limited <sup>**</sup>	British Virgin Islands	US\$1	100	–	Investment holding
Sino Tactics Limited ("Sino Tactics") <sup>**</sup>	British Virgin Islands	US\$100	–	92	Investment holding
Manford Incorporation Limited ("Manford") <sup>&amp;</sup>	Hong Kong	HK\$100	–	92	Investment holding

\* The name of this company was formerly known as Great Water EP Investment (China) Limited before 2016.

& Registered as company limited by shares.

^ Registered as wholly-foreign-owned enterprises under the PRC law.

^^ Registered as domestic enterprises under the PRC law.

# The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as these companies do not register any official English names.

## Registered as limited liability company under the Vietnam law.

\*\* Registered as limited liability company incorporated in the British Virgin Islands (the "BVI").

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

During the year ended 31 December 2020, the Company and its subsidiaries (collectively referred to as the “Group”) recorded a consolidated net loss of RMB106,646,000 (2019: RMB23,792,000). As at 31 December 2020, the Group had net current assets of RMB4,713,000 (2019: RMB157,884,000).

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2020 on a going concern basis.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group has directly disposed of the related assets or liabilities.

# NOTES TO FINANCIAL STATEMENTS

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## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below: *(continued)*

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. During the year ended 31 December 2020, there are no reduction or waives by the lessors on monthly lease payments for the leases of the Group's office as a result of the pandemic and there are no other changes to the terms of the leases. The amendments did not have any impact on the financial position and performance of the Group.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework<sup>2</sup></i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2<sup>1</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 17	<i>Insurance Contracts<sup>3</sup></i>
Amendments to HKFRS 17	<i>Insurance Contracts<sup>3, 6</sup></i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current<sup>3, 5</sup></i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>2</sup></i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract<sup>2</sup></i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> No mandatory effective date yet determined but available for adoption

<sup>5</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements — *Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>6</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

HKFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 *Insurance Contracts*. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

HKFRS 17 is effective for reporting periods beginning on or after 1 January 2023. Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. The standard is not expected to have any impact on the Group.

Amendments to HKFRS 17 include changes to simplify certain requirements in the standard and make financial performance easier to explain. The amendments also provide additional reliefs to reduce the effort required for the transition to HKFRS 17. In addition, the amendments defer the effective date of HKFRS 17 to annual reporting periods beginning on or after 1 January 2023 with earlier application permitted. As a result of the deferral, the HKICPA issued the amendments to HKFRS 4 to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023. The amendments are not expected to have any impact on the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

*(continued)*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

*(continued)*

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participant would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Fair value measurement** *(continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.9% to 5%
Building improvements	20%
Electronic equipment	19% to 33%
Dedicated equipment	19%
Furniture and fixtures	19%
Motor vehicles	19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **Investment properties**

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Intangible assets (other than goodwill)** *(continued)*

#### **Research and development costs**

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

### **Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### **Group as a lessee**

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### *(a) Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	20 years
Office	2 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### *(b) Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Leases** *(continued)*

#### **Group as a lessee** *(continued)*

##### *(b) Lease liabilities (continued)*

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

##### *(c) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

#### **Group as a lessor**

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Service concession arrangements**

A service concession arrangement refers to a contractual service arrangement granted by a government authority in Mainland China (the “Grantor”) to allow the Group to operate an infrastructure to provide service to the public. Such arrangement involves the Group to develop, finance, operate, and maintain the public-service infrastructure for a specified period of time for a service fee. At the end of the service period, the Group is obliged to hand over the infrastructure to the Grantor in a specified condition for little or no incremental consideration.

Such service concession arrangement is governed by a contract between the Group and the relevant Grantor which sets out, inter alia, performance standards, the mechanism for service fee adjustment, specific obligations of the Group for the maintenance of the infrastructure and arrangement for arbitrating disputes.

A service concession arrangement is classified as a financial asset model under HK(IFRIC)-Int 12 and is recognised as a financial asset — Receivables under a service concession arrangement when (a) the Group has an unconditional right to receive cash or another financial asset from, or at the direction of, the Grantor for the construction service rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and the specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. During the period of construction of the infrastructures, the relevant portion of consideration of construction services rendered included in the receivables under service concession arrangements is accounted for as “contract assets”. Upon completion of construction, the relevant portion of consideration of construction services rendered included in the receivables under a service concession arrangement is accounted for as financial assets under the accounting policy for “financial assets at amortised cost”.

### **Investments and other financial assets**

#### ***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for “Revenue recognition” below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investments and other financial assets** *(continued)*

#### **Initial recognition and measurement** *(continued)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

##### *Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Derecognition of financial assets** *(continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Impairment of financial assets**

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### **General approach**

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and bills receivables and contract assets which apply the simplified approach as detailed below.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of financial assets** *(continued)*

#### **General approach** *(continued)*

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### **Simplified approach**

For trade and bills receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### **Financial liabilities**

#### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

#### **Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification as follows:

#### **Financial liabilities at amortised cost (loans and borrowings)**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

#### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences, and at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Income tax** *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

### **Revenue recognition**

#### ***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Revenue recognition** *(continued)*

#### **Revenue from contracts with customers** *(continued)*

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

#### *(a) Sale of equipment*

Revenue from the sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment.

#### *(b) Construction services*

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

#### *(c) Provision of services*

Revenue from the provision of services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

### **Revenue from other sources**

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Finance income from service concession arrangements is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### **Other income**

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

### Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

### Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

### Other employee benefits

#### Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in RMB, as this is the principal currency of the economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Classification between intangible assets or financial assets and property, plant and equipment under service concession arrangements*

The Group makes judgement in determining whether a service concession arrangement is classified as an intangible asset or financial asset in accordance with HK(IFRIC)-Int 12, or as property, plant and equipment in accordance with HKAS 16. For a service concession arrangement where (a) the Grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the Grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, no property, plant and equipment is recognised.

The Group further determines whether a financial asset exists to the extent that (a) it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group will otherwise recognise a service concession arrangement as an intangible asset if the above conditions are not fulfilled.

#### *Revenue from contracts with customers*

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

##### *(i) Identifying performance obligations in construction projects with sale of equipment*

The Group provides construction projects with sale of equipment. The construction services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group determined that both sale of equipment and construction services are each capable of being distinct. The fact that the Group regularly sells both equipment and construction services on a standalone basis indicates that the customer can benefit from both products on their own. The Group also determined that the promises to transfer the equipment and to provide construction services are distinct within the context of the contract. The equipment and construction services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the equipment and construction services together in the contract does not result in any additional or combined functionality and neither the equipment nor the construction modifies or customises the other. In addition, the equipment and construction services are not highly interdependent or highly interrelated, because the Group would be able to transfer the equipment even if the customer declined installation and would be able to provide construction services in relation to equipment sold by other distributors. Consequently, the Group has allocated a portion of the transaction price to the equipment and the construction services based on relative standalone selling prices.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### **Judgements** *(continued)*

#### **Revenue from contracts with customers** *(continued)*

(ii) *Determining the transaction price and the amounts allocated to performance obligations in construction projects with sale of equipment*

To determine the proper revenue recognition method for contracts for construction projects with sale of equipment, the Group separate the contract into more than one performance obligation. Moreover, standalone selling prices for each performance obligation is not readily observable. The Group use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

(iii) *Determining the timing of satisfaction of construction projects*

The Group concluded that revenue from construction services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the construction that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring the progress of the construction services because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

#### **Property lease classification — Group as lessor**

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

#### **Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Judgements *(continued)*

#### *Tax*

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

The Group's determination as to whether to accrue for deferred tax for withholding taxes from the distribution of dividends from a subsidiary in Mainland China according to the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiary in Mainland China will not be distributed in the foreseeable future, no deferred tax for withholding taxes is provided.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### ***Provision for expected credit losses on trade receivables and contract assets***

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on the collectability rate for groupings of various customer segments that have similar credit risk patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's evaluation of historical observed collectability rate and ageing analysis and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their abilities to make payments, additional allowances may be required.

The assessment of the correlation among historical observed collectability rate, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets are disclosed in notes 20 and 21 to the financial statements, respectively.

#### ***Leases — Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### **Estimation uncertainty** *(continued)*

#### **Estimation of fair value of investment properties**

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using the discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2020 was RMB24,500,000 (31 December 2019: RMB24,900,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

#### **Provision for income taxes**

Provision for income taxes is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income taxes and hence profit or loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

#### **Impairment of non-financial assets**

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### **Fair value of unlisted equity investment**

The unlisted equity investment has been valued based on a market-based valuation technique as detailed in note 37 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of this investment as Level 3. The fair value of the unlisted equity investment at 31 December 2020 was RMB1,500,000 (2019: RMB1,500,000). Further details are included in note 18 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (a) the Engineering, Procurement and Construction projects (“EPC Projects”) segment comprises projects in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procurement and construction of sludge or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project;
- (b) the construction projects (“Construction Projects”) segment represents construction projects other than EPC Projects;
- (c) the equipment projects (“Equipment Projects”) segment comprises projects in which an enterprise is engaged by a customer for procurement of necessary materials, equipment and machinery, installation, testing and commissioning of the equipment and machinery for the treatment facilities as well as provision of technical consulting services to upgrade or optimise the design of the water or wastewater treatment facilities pursuant to the contract;
- (d) the service concession arrangement (“Service Concession Arrangement”) segment comprises projects in which provides the construction of sludge treatment and operation of the sludge station upon the completion of construction for a long period, i.e. 10 years. The fee received under this arrangement for the provision of operation services includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff in excess of the minimum volume. Restoration of the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement is necessary. According to the term of such arrangement, the Group is responsible for all of the costs in construction, operation and maintenance as well as restoration of the infrastructure; and
- (e) the “others” segment comprises, principally, the Group’s operation and maintenance services in which an enterprise of the Group is retained to operation and maintenance water or wastewater treatment facilities for a certain period for certain operation and maintenance fees on a monthly or quarterly basis.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that interest income, non-lease-related finance costs, fair value gains from the Group’s investment properties as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude tax recoverable, cash and cash equivalents, property, plant and equipment, investment properties, right-of-use assets, prepaid land lease payments, equity investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, interest-bearing bank and other borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2020	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Service Concession Arrangement RMB'000	Others RMB'000	Total RMB'000
<b>Segment revenue</b> <i>(note 5)</i>						
Sales to external customers	5,742	3,194	36,927	22,737	7,024	75,624
<b>Segment results</b>	(221)	44	6,316	2,088	1,792	10,019
<i>Reconciliation:</i>						
Interest income						99
Unallocated gains						2,357
Impairment loss						(82,580)
Corporate and other unallocated expenses						(32,296)
Finance costs (other than interest on lease liabilities)						(2,452)
Loss before tax						(104,853)
<b>Segment assets</b>	31,884	20,100	92,319	76,124	8,466	228,893
<i>Reconciliation:</i>						
Corporate and other unallocated assets						90,546
Total assets						319,439
<b>Segment liabilities</b>	43,150	21,101	68,560	18,582	172	151,565
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						75,979
Total liabilities						227,544
<b>Other segment information:</b>						
Depreciation and amortisation						3,516
Capital expenditure*						197

\* Capital expenditure consists of additions to property, plant and equipment.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2019	EPC Projects <i>RMB'000</i>	Construction Projects <i>RMB'000</i>	Equipment Projects <i>RMB'000</i>	Service Concession Arrangement <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b> <i>(note 5)</i>						
Sales to external customers	20,283	6,625	74,108	16,101	4,484	121,601
<b>Segment results</b>	4,281	1,101	9,757	960	2,510	18,609
<i>Reconciliation:</i>						
Interest income						96
Unallocated gains						8,566
Impairment loss						(20,158)
Corporate and other unallocated expenses						(32,536)
Finance costs						(3,348)
Loss before tax						(28,771)
<b>Segment assets</b>	77,515	47,776	153,405	61,725	9,391	349,812
<i>Reconciliation:</i>						
Corporate and other unallocated assets						82,215
Total assets						432,027
<b>Segment liabilities</b>	51,734	15,584	69,829	16,970	123	154,240
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						78,861
Total liabilities						233,101
<b>Other segment information:</b>						
Depreciation and amortisation						3,556
Capital expenditure*						65

\* Capital expenditure consists of additions to property, plant and equipment.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. OPERATING SEGMENT INFORMATION *(continued)*

### Geographical information

#### (a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
Mainland China	75,254	120,685
Vietnam	370	916
	<b>75,624</b>	121,601

The revenue information above is based on the locations of the customers.

#### (b) Non-current assets

	2020 RMB'000	2019 RMB'000
Mainland China	39,627	43,227
Vietnam	93	432
	<b>39,720</b>	43,659

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

### Information about major customers

Revenue derived from sales to each of the major customers, including sales to a group of entities which are known to be under common control with the customers of Service Concession Arrangement, EPC Projects and Equipment Projects segments, which accounted for 10% or more of the Group's revenue for the year is set out below:

	2020 RMB'000	2019 RMB'000
Customer A	22,737	58,041
Customer B	16,442	20,283
Customer C	16,105	16,101

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	75,624	121,601

### Revenue from contracts with customers

#### (i) Disaggregated revenue information

For the year ended 31 December 2020

Segments	Service					Total RMB'000
	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Concession Arrangement RMB'000	Others RMB'000	
<b>Types of goods or services</b>						
Sale of equipment	–	–	33,460	–	–	33,460
Construction services	3,550	3,194	–	9,214	–	15,958
Other services	2,192	–	3,467	13,523	7,024	26,206
Total revenue from contracts with customers	5,742	3,194	36,927	22,737	7,024	75,624
<b>Geographical markets</b>						
Mainland China	5,742	2,824	36,927	22,737	7,024	75,254
Vietnam	–	370	–	–	–	370
Total revenue from contracts with customers	5,742	3,194	36,927	22,737	7,024	75,624
<b>Timing of revenue recognition</b>						
Equipment transferred at a point in time	–	–	33,460	–	–	33,460
Services transferred over time	5,742	3,194	3,467	22,737	7,024	42,164
Total revenue from contracts with customers	5,742	3,194	36,927	22,737	7,024	75,624

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

#### (i) Disaggregated revenue information *(continued)*

For the year ended 31 December 2019

Segments	EPC Projects <i>RMB'000</i>	Construction Projects <i>RMB'000</i>	Equipment Projects <i>RMB'000</i>	Service Concession Arrangement <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Types of goods or services</b>						
Sale of equipment	6,682	–	74,108	–	–	80,790
Construction services	8,899	6,625	–	16,101	–	31,625
Other services	4,702	–	–	–	4,484	9,186
<hr/>						
Total revenue from contracts with customers	20,283	6,625	74,108	16,101	4,484	121,601
<hr/>						
<b>Geographical markets</b>						
Mainland China	20,283	5,785	74,108	16,101	4,408	120,685
Vietnam	–	840	–	–	76	916
<hr/>						
Total revenue from contracts with customers	20,283	6,625	74,108	16,101	4,484	121,601
<hr/>						
<b>Timing of revenue recognition</b>						
Equipment transferred at a point in time	–	–	74,108	–	–	74,108
Services transferred over time	20,283	6,625	–	16,101	4,484	47,493
<hr/>						
Total revenue from contracts with customers	20,283	6,625	74,108	16,101	4,484	121,601

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

#### (i) *Disaggregated revenue information (continued)*

Set out below is the reconciliation of the revenue from contracts to customers with the amounts disclosed in the segment information:

#### For the year ended 31 December 2020

Segments	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Service Concession Arrangement RMB'000	Others RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>						
External customers	5,742	3,194	36,927	22,737	7,024	75,624
Total revenue from contracts with customers	5,742	3,194	36,927	22,737	7,024	75,624

#### For the year ended 31 December 2019

Segments	EPC Projects RMB'000	Construction Projects RMB'000	Equipment Projects RMB'000	Service Concession Arrangement RMB'000	Others RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>						
External customers	20,283	6,625	74,108	16,101	4,484	121,601
Total revenue from contracts with customers	20,283	6,625	74,108	16,101	4,484	121,601

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of equipment	4	–
Construction services	–	18
	4	18

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

### Revenue from contracts with customers *(continued)*

#### (ii) Performance obligations

Information about the Group's performance obligations is summarised below:

##### *Sale of equipment*

The performance obligation is satisfied upon delivery of equipment and payment is generally due within 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

##### *Construction services*

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

##### *Other services*

The performance obligation is satisfied over time as services are rendered. Other service contracts are for periods of one year or less and are billed based on the time incurred.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2020 are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<b>63,404</b>	83,609
After one year	<b>122,489</b>	188,683
	<b>185,893</b>	272,292

All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>Other income</b>			
Bank interest income	6	<b>99</b>	96
Rental income from investment property operating leases:			
Other lease payments, including fixed Payments		<b>1,784</b>	1,508
Government grants*			
— Related to income		<b>487</b>	1,413
Exchange gains, net		—	165
Others		<b>14</b>	2
		<b>2,384</b>	3,184
<b>Gains</b>			
Fair value gains on investment properties	14	—	900
Gain on disposal of items of property, plant and equipment	6	<b>72</b>	—
Gain on disposal of a subsidiary	30	—	4,578
		<b>72</b>	5,478
		<b>2,456</b>	8,662

\* Government grants for the year ended 31 December 2020 were received from the government for the subsidies of high-tech enterprises. Government grants for the year ended 31 December 2019 were received from the government authorities of the PRC in recognition of the Group's efforts in intellectual properties in Guangzhou.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
Cost of inventories sold		<b>30,611</b>	64,351
Cost of construction contracting		<b>29,762</b>	36,736
Cost of services provided		<b>5,232</b>	1,905
Depreciation of property, plant and equipment	13	<b>2,663</b>	2,703
Depreciation of right-of-use assets	15(a)	<b>138</b>	139
Amortisation of other intangibles assets	16	<b>715</b>	714
Auditor's remuneration		<b>1,365</b>	1,381
Employee benefit expense (excluding directors' and chief executive's remuneration as disclosed in note 8):			
Wages and salaries		<b>14,843</b>	15,046
Pension scheme contributions <sup>#</sup>		<b>63</b>	1,202
Other welfare expenses		<b>1,901</b>	3,477
		<b>16,807</b>	19,725
Foreign exchange differences, net		<b>430</b>	(165)
Impairment of financial and contract assets:			
Impairment of trade receivables	20	<b>43,804</b>	14,838
Impairment of contract assets	21	<b>15,176</b>	5,320
Impairment of prepayments, other receivables and other assets	22	<b>23,600</b>	–
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		<b>336</b>	374
Changes in fair value of investment properties <sup>*</sup>	14	<b>400</b>	(900)
Bank interest income <sup>*</sup>	5	<b>(99)</b>	(96)
Gain on disposal of items of property, plant and equipment <sup>*</sup>	5	<b>(72)</b>	–
Gain on disposal of a subsidiary	30	<b>–</b>	(4,578)

\* Gains are included in "Other income and gains" and the losses are included in "Other expenses", as appropriate, in the consolidated statement of profit or loss and other comprehensive income.

# As at the end of the years 2020 and 2019, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans	2,452	3,348
Interest on lease liabilities	38	47
	<b>2,490</b>	3,395

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	818	813
Other emoluments:		
Salaries, allowances and benefits in kind	660	654
Performance related bonuses	179	168
Pension scheme contributions	5	72
	<b>844</b>	894
	<b>1,662</b>	1,707

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
Mr. Tse Chi Wai	107	106
Mr. Ha Cheng Yong	107	106
Ms. Bai Shuang	107	106
	<b>321</b>	318

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)* **(b) Executive directors, non-executive directors and the chief executive**

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2020</b>					
Executive directors:					
Mr. Xie Yang	248	513	80	3	844
Mr. He Xuan Xi	142	147	99	2	390
Non-executive directors:					
Ms. Gong Lan Lan	107	–	–	–	107
	<b>497</b>	<b>660</b>	<b>179</b>	<b>5</b>	<b>1,341</b>
<b>2019</b>					
Executive directors:					
Mr. Xie Yang	247	506	–	44	797
Mr. He Xuan Xi	142	148	168	28	486
Non-executive directors:					
Ms. Gong Lan Lan	106	–	–	–	106
	495	654	168	72	1,389

There was no arrangement under which a director or the chief executive of the Company waived or agreed to waive any remuneration during the year or the prior year.

During the year and in prior years, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO FINANCIAL STATEMENTS

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## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is the chief executive as well (2019: one director who was the chief executive as well), details of his remuneration are set out in note 8 above.

Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	2,038	2,328
Performance related bonuses	541	422
Pension scheme contributions	7	96
	<b>2,586</b>	2,846

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2020	2019
Nil to RMB1,000,000	3	4
RMB1,000,001 to RMB1,500,000	1	–
	<b>4</b>	4

During the year and in prior years, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25% on taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Great Water Guangzhou, since it was recognised as a High and New Technology Enterprise in Mainland China and a lower PRC CIT rate of 15% had been applied during the years ended 31 December 2020 and 2019.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 10. INCOME TAX (continued)

Pursuant to the Vietnam Income Tax Law and the respective regulations, the subsidiary which operates in Vietnam is subject to CIT at a rate of 20% on taxable income.

	2020 RMB'000	2019 RMB'000
Current — Elsewhere other than Hong Kong	(2,090)	(1,259)
Deferred (note 27)	3,883	(3,720)
	<b>1,793</b>	(4,979)

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

### 2020

	Cayman Islands		BVI		Hong Kong		Mainland China		Vietnam		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(5,119)		–		(500)		(97,761)		(1,473)		(104,853)	
Tax at the statutory tax rate	–	–	–	–	(83)	16.5	(24,440)	25.0	(295)	20.0	(24,818)	23.7
Lower tax rate for specific province or enacted by local authority	–	–	–	–	–	–	9,776	(10.0)	–	–	9,776	(9.3)
Effect on opening deferred tax of increase in rates	–	–	–	–	–	–	(3,305)	3.4	–	–	(3,305)	3.2
Expenses not deductible for tax	–	–	–	–	–	–	249	(0.3)	–	–	249	(0.2)
Tax rate differential	–	–	–	–	–	–	(9,610)	9.8	–	–	(9,610)	9.2
Adjustments in respect of current tax of previous periods	–	–	–	–	–	–	(2,090)	2.1	–	–	(2,090)	2.0
Tax losses not recognised	–	–	–	–	83	16.5	31,213	(31.9)	295	20.0	31,591	(30.1)
Tax charge at the Group's effective rate	–	–	–	–	–	–	1,793	(1.8)	–	–	1,793	(1.7)

# NOTES TO FINANCIAL STATEMENTS

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## 10. INCOME TAX (continued)

2019

	Cayman Islands		BVI		Hong Kong		Mainland China		Vietnam		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(4,764)		–		3,635		(27,167)		(475)		(28,771)	
Tax at the statutory tax rate	–	–	–	–	600	16.5	(6,792)	25.0	(95)	20.0	(6,287)	21.9
Lower tax rate for specific province or enacted by local authority	–	–	–	–	–	–	2,717	(10.0)	–	–	2,717	(9.4)
Effect on opening deferred tax of increase in rates	–	–	–	–	–	–	–	–	–	–	–	–
Income not subject to tax	–	–	–	–	(752)	(20.7)	–	–	–	–	(752)	2.6
Expenses not deductible for tax	–	–	–	–	–	–	265	(1.0)	–	–	265	(0.9)
Tax rate differential	–	–	–	–	–	–	90	(0.3)	–	–	90	(0.3)
Adjustments in respect of current tax of previous periods	–	–	–	–	–	–	(1,259)	4.6	–	–	(1,259)	4.4
Tax losses not recognised	–	–	–	–	152	4.2	–	–	95	(20.0)	247	(0.9)
Tax charge at the Group's effective rate	–	–	–	–	–	–	(4,979)	18.3	–	–	(4,979)	17.3

## 11. DIVIDENDS

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

## 12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of loss of RMB106,646,000 (2019: RMB24,157,000), and the weighted average number of ordinary shares of 300,000,000 (2019: 300,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculation of basic and diluted loss per share is based on:

	2020	2019
	RMB'000	RMB'000
<b>Loss</b>		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:	<b>106,646</b>	24,157
	<b>Number of shares</b>	
	2020	2019
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<b>300,000,000</b>	300,000,000

# NOTES TO FINANCIAL STATEMENTS

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## 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Building improvements RMB'000	Electronic equipment RMB'000	Dedicated equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2020</b>								
At 1 January 2020:								
Cost	8,100	1,091	684	9,760	1,031	4,256	1,588	26,510
Accumulated depreciation	(999)	(1,091)	(617)	(4,530)	(900)	(2,506)	-	(10,643)
Net carrying amount	7,101	-	67	5,230	131	1,750	1,588	15,867
At 1 January 2020, net of accumulated depreciation	7,101	-	67	5,230	131	1,750	1,588	15,867
Additions	-	-	43	27	29	98	-	197
Disposals	-	-	(6)	-	-	(325)	-	(331)
Depreciation provided during the year	(165)	-	(26)	(1,819)	(33)	(620)	-	(2,663)
Exchange realignment	-	-	-	-	-	(5)	-	(5)
At 31 December 2020, net of accumulated depreciation	6,936	-	78	3,438	127	898	1,588	13,065
At 31 December 2020:								
Cost	8,100	1,091	617	9,787	1,053	3,518	1,588	25,754
Accumulated depreciation	(1,164)	(1,091)	(539)	(6,349)	(926)	(2,620)	-	(12,689)
Net carrying amount	6,936	-	78	3,438	127	898	1,588	13,065

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

	Buildings <i>RMB'000</i>	Building improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Dedicated equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2019								
At 1 January 2019:								
Cost	47,914	1,091	710	9,699	1,026	4,248	1,588	66,276
Accumulated depreciation	(3,155)	(1,091)	(600)	(2,722)	(854)	(1,853)	–	(10,275)
Net carrying amount	44,759	–	110	6,977	172	2,395	1,588	56,001
At 1 January 2019, net of accumulated depreciation								
	44,759	–	110	6,977	172	2,395	1,588	56,001
Additions	–	–	–	62	3	–	–	65
Disposals	–	–	–	(1)	–	–	–	(1)
Disposal of a subsidiary <i>(note 30)</i>	(37,492)	–	(8)	–	–	–	–	(37,500)
Depreciation provided during the year	(166)	–	(35)	(1,808)	(44)	(650)	–	(2,703)
Exchange realignment	–	–	–	–	–	5	–	5
At 31 December 2019, net of accumulated depreciation								
	7,101	–	67	5,230	131	1,750	1,588	15,867
At 31 December 2019:								
Cost	8,100	1,091	684	9,760	1,031	4,256	1,588	26,510
Accumulated depreciation	(999)	(1,091)	(617)	(4,530)	(900)	(2,506)	–	(10,643)
Net carrying amount	7,101	–	67	5,230	131	1,750	1,588	15,867

At 31 December 2020 and 2019, the Group's buildings were pledged to secure general banking facilities granted to the Group (note 26).

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 14. INVESTMENT PROPERTIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount at 1 January	24,900	24,000
Net (loss)/gain from a fair value adjustment	(400)	900
Carrying amount at 31 December	24,500	24,900

The Group's investment properties are situated in Mainland China, which consist of one industrial building and one land use right. The land use right is held under a long term lease and the building is owned by a subsidiary of the Group. The Group's investment properties were revalued on 31 December 2020 based on valuations performed by Roma Appraisals Limited, an independent professionally qualified valuer, at RMB24,500,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the directors, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year around the year end when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

At 31 December 2020 and 2019, the Group's investment properties were pledged to secure general banking facilities granted to the Group (note 26).

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2020 using			Total <i>RMB'000</i>
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	
Recurring fair value measurement for:				
Industrial properties	–	–	24,500	24,500

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 14. INVESTMENT PROPERTIES *(continued)* Fair value hierarchy *(continued)*

Fair value measurement as at 31 December 2019 using			
Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>

Recurring fair value measurement for:

Industrial properties	–	–	24,900	24,900
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During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

### As at 31 December 2020

	Valuation technique	Significant unobservable input	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB24,500,000

As at 31 December 2019

	Valuation technique	Significant unobservable input	Amount
Industrial properties	Direct comparison approach	Market unit selling price	RMB24,900,000

### *The direct comparison approach*

Under the direct comparison approach, the fair value is estimated by the direct comparison method on the assumption of the sale of the property interest with the benefit of vacant possession and by making reference to comparable sales transactions as available in the market.

The valuation takes into account the characteristics of the properties held for own use, which include the location, size, shape, view, floor level, year of completion and other factors collectively, to arrive at the market price.

The key input was the market price. A significant increase/(decrease) in the market price would result in a significant increase/(decrease) in the fair value of the properties held for own use.

# NOTES TO FINANCIAL STATEMENTS

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## 15. LEASES

### The Group as a lessee

The Group has lease contracts for office used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 years, and no ongoing payments will be made under the terms of these land leases. Lease of office has a lease term of two years.

#### (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2019	477	98	575
Depreciation charge	(78)	(61)	(139)
As at 31 December 2019 and 1 January 2020	399	37	436
Additions	–	116	116
Depreciation charge	(78)	(60)	(138)
As at 31 December 2020	<b>321</b>	<b>93</b>	<b>414</b>

At 31 December 2020 and 2019, the Group's leasehold land was pledged to secure general banking facilities granted to the Group (note 26).

#### (b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	51	108
New leases	116	–
Accretion of interest recognised during the year	38	47
Payments	(98)	(104)
Exchange realignment	(5)	–
Carrying amount at 31 December	<b>102</b>	51
Analysed into:		
Current portion	54	51
Non-current portion	48	–

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### 15. LEASES (continued)

#### The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on lease liabilities	38	47
Depreciation charge of right-of-use assets	138	139
<b>Total amount recognised in profit or loss</b>	<b>176</b>	186

#### The Group as a lessor

The Group leases its investment properties (note 14) consisting of one industrial property in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB1,784,000 (2019: RMB1,508,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within one year	1,994	1,787
After one year but within two years	1,994	1,787
After two years but within three years	1,994	1,787
After three years but within four years	760	1,787
After four years but within five years	131	207
After five years	–	17
<b>Total</b>	<b>6,873</b>	7,372

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 16. OTHER INTANGIBLE ASSETS

	Patents and licences RMB'000
<b>31 December 2020</b>	
Cost at 1 January 2020, net of accumulated amortisation	2,456
Amortisation provided during the year	(715)
At 31 December 2020	1,741
At 31 December 2020:	
Cost	3,648
Accumulated amortisation	(1,907)
Net carrying amount	1,741

	Patents and licences RMB'000
31 December 2019	
Cost at 1 January 2019, net of accumulated amortisation	3,170
Amortisation provided during the year	(714)
At 31 December 2019	2,456
At 31 December 2019:	
Cost	3,648
Accumulated amortisation	(1,192)
Net carrying amount	2,456

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 17. RECEIVABLES UNDER A SERVICE CONCESSION ARRANGEMENT

	2020 RMB'000	2019 RMB'000
Receivables under a service concession arrangement	57,819	–
Portion classified as current assets	(6,629)	–
Non-current portion	51,190	–

Receivables under a service concession arrangement was due from the Grantor in respect of the Group's sludge treatment operations.

The expected credit loss rate for the Group's receivables under a service concession arrangement is minimal. No impairment loss was recognised by the Group as at 31 December 2020 in respect of this asset (2019: Nil).

### 18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
<b>Equity investments designated at fair value through other comprehensive income</b>		
Unlisted equity investments, at fair value		
Guangzhou Environmental Technology Company Limited*	1,500	1,500

\* The name of this company was formerly known as Guangzhou Huanke Environmental Protection Technology Limited before 2019.

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 19. INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finished goods	11,328	101

### 20. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	157,264	176,413
Impairment	(61,650)	(17,885)
	<b>95,614</b>	158,528

Trade receivables represented the outstanding contracted value for the sale of goods, construction contracts and rendering of services receivable from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly on credit. Tax invoices are issued to the customers based on agreed schedules and the Group's trade receivables are subject to various credit terms. The credit period granted to the customers is 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within one month	11,357	34,539
One to three months	15,555	1,578
Three months to one year	2,244	7,734
One to two years	4,182	27,347
Two to three years	20,730	79,694
Over three years	41,546	7,636
	<b>95,614</b>	158,528

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 20. TRADE AND BILLS RECEIVABLES *(continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	17,885	3,047
Impairment loss ( <i>note 6</i> )	43,804	14,838
Exchange realignment	(39)	–
At end of year	61,650	17,885

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the collectability rate for groupings of various customer segments with similar credit risk patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

#### As at 31 December 2020

	Category A	Category B	Category C	Category D	Total
Expected credit loss rate	9%	46%	20%	94%	39%
Gross carrying amount (RMB'000)	2,584	42,093	86,128	26,459	157,264
Expected credit losses (RMB'000)	232 <sup>^</sup>	19,445 <sup>**</sup>	16,974 <sup>**</sup>	24,999 <sup>^</sup>	61,650

#### As at 31 December 2019

	Category A	Category B	Category C	Category D	Total
Expected credit loss rate	0%	5%	7%	29%	10%
Gross carrying amount (RMB'000)	1,801	53,722	92,863	28,027	176,413
Expected credit losses (RMB'000)	–	2,872 <sup>*</sup>	6,895	8,118 <sup>^</sup>	17,885

<sup>^</sup> Specific trade receivables with gross carrying amount of RMB58,896,000 (2019: RMB23,296,000) were assessed individually which were considered in default due to indicators and the impairment of RMB56,694,000 (2019: RMB7,688,000) were made.

<sup>\*</sup> Specific trade receivables with gross carrying amount of RMB16,956,000 (2019: RMB34,313,000) were assessed individually as the Group considered the default risk were minimal and the outstanding contractual amounts were likely to be recovered in full.

### Transfers of financial assets

At 31 December 2020, the Group presented or endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain suppliers and banks with an aggregate carrying amount of RMB1,979,000 (2019: RMB250,000). The Derecognised Bills are all matured at the end of the reporting period.

During the year ended 31 December 2020, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year and cumulatively.

# NOTES TO FINANCIAL STATEMENTS

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## 21. CONTRACT ASSETS

	<b>31 December 2020 RMB'000</b>	31 December 2019 RMB'000	1 January 2019 RMB'000
Contract assets arising from:			
Construction services	<b>71,861</b>	94,406	91,119
Service concession arrangement	<b>1,009</b>	60,730	44,629
	<b>72,870</b>	155,136	135,748
Impairment	<b>(22,259)</b>	(7,416)	(2,096)
	<b>50,611</b>	147,720	133,652

Contract assets are initially recognised for revenue earned from the sale of equipment and the provision of construction services as the receipt of consideration is conditional on successful completion of delivery of equipment and construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of delivery of equipment or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade and bills receivables. The increase in contract assets in 2019 was the result of the increase in the ongoing sale of equipment and the provision of construction services at the end of each of the years.

Contract assets are initially recognised for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangement. Pursuant to the service concession agreement, the Group receives no payment from the Grantors during the construction period and receives service fees when relevant provision of sludge treatment is rendered. The receivables under the service concession arrangement (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangement. Amounts billed will then be transferred to trade receivables (note 20). The decrease in contract assets in 2020 was the result of reclassification to trade receivables upon the completion of the construction. The Group's trading terms and credit policy with customers are disclosed in note 20 to the financial statements.

During the year ended 31 December 2020, RMB22,259,000 (2019: RMB7,416,000) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 20 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	<b>2020 RMB'000</b>	2019 RMB'000
Within one year	<b>49,602</b>	86,990
After one year	<b>1,009</b>	60,730
Total contract assets	<b>50,611</b>	147,720

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 21. CONTRACT ASSETS (continued)

The movements in the loss allowance for impairment of contract assets are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	7,416	2,096
Impairment losses (note 6)	15,176	5,320
Amount written off as uncollectible	(333)	–
At end of year	22,259	7,416

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on the collectability rate of trade receivables for groupings of various customer segments with similar credit risk patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

### As at 31 December 2020

	Category A	Category B	Category C	Category D	Total
Expected credit loss rate	0%	1%	8%	96%	31%
Gross carrying amount (RMB'000)	–	48,404	2,062	22,404	72,870
Expected credit losses (RMB'000)	–	603	159	21,497 <sup>^</sup>	22,259

### As at 31 December 2019

	Category A	Category B	Category C	Category D	Total
Expected credit loss rate	0%	1%	7%	29%	5%
Gross carrying amount (RMB'000)	–	127,259	5,437	22,440	155,136
Expected credit losses (RMB'000)	–	658	355	6,403 <sup>^</sup>	7,416

<sup>^</sup> Specific contract assets with gross carrying amount of RMB21,491,000 (2019: RMB19,293,000) were assessed individually which were considered in default due to indicators and the impairment of RMB21,491,000 (2019: RMB6,367,000) were made.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Prepayments	32,556	46,912
Deposits and other receivables	2,376	6,722
	<b>34,932</b>	53,634
Impairment allowance	<b>(23,600)</b>	–
	<b>11,332</b>	53,634

Four specific prepayments with gross carrying amount of RMB23,600,000 (2019: RMB23,600,000) was assessed individually which were considered in default due to indicators and an impairment of RMB23,600,000 (2019: nil) was made.

### 23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cash and bank balances	51,515	26,885
Less: Pledged deposits	<b>(4,904)</b>	(2,022)
Cash and cash equivalents	<b>46,611</b>	24,863
Denominated in:		
RMB	<b>35,947</b>	9,564
HK\$	<b>5,395</b>	16,748
US\$	<b>2,086</b>	356
Vietnam Dong (“VND”)	<b>8,087</b>	217
	<b>51,515</b>	26,885

The RMB is not freely convertible into other currencies, however, under the Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The VND is also not freely convertible into other currencies, however, under the State Bank of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 24. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Within one month	<b>6,744</b>	26,909
One to three months	<b>4,771</b>	11,495
Three months to one year	<b>14,254</b>	4,722
Over one year	<b>99,856</b>	103,933
	<b>125,625</b>	147,059

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days.

### 25. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	<b>2020</b>	2019
		<b>RMB'000</b>	RMB'000
Contract liabilities	<i>(a)</i>	<b>25,940</b>	7,181
Other payables	<i>(b)</i>	<b>26,670</b>	28,761
		<b>52,610</b>	35,942

(a) Details of contract liabilities are as follows:

	<b>31 December</b>	31 December	1 January
	<b>2020</b>	2019	2019
	<b>RMB'000</b>	RMB'000	RMB'000
<b>Short-term advances received from customers</b>			
Sale of equipment	<b>16,305</b>	6,287	2,186
Construction services	<b>9,635</b>	894	900
Total contract liabilities	<b>25,940</b>	7,181	3,086

Contract liabilities include short-term advances received to deliver equipment and construction services. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the provision of sale of equipment and construction services at the end of the year.

(b) Other payables are non-interest-bearing and repayable on demand.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Lease liabilities (notes 15(b))	4.75	2021	54	4.75	2020	51
Bank loans — secured	5.00–5.39	2021	42,821	5.00–6.70	2020	42,636
			42,875			42,687
<b>Non-Current</b>						
Lease liabilities (notes 15(b))	4.75	2022	48			–
Bank loan — secured	6.70	2022	497	6.70	2022	3,317
			545			3,317
			43,420			46,004

	2020	2019
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	42,821	42,636
Beyond one year	497	3,317
	43,318	45,953
Other borrowings repayable:		
Within one year	54	51
Beyond one year	48	–
	102	51
	43,420	46,004

*Notes:*

- (a) The Group's banking facilities amounting to RMB67,000,000 (2019: RMB87,000,000), of which RMB43,318,000 (2019: RMB45,953,000) had been utilised as at the end of the reporting period, are secured by:
- (i) mortgages over the Group's investment properties situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of RMB24,500,000 (2019: RMB24,900,000) (note 14);
  - (ii) mortgages over the Group's buildings, which had a net carrying value at the end of the reporting period of approximately RMB6,936,000 (2019: RMB7,101,000) (note 13); and
  - (iii) mortgages over the Group's right-of-use assets, which had an aggregate carrying value at the end of the reporting period of RMB321,000 (2019: RMB399,000) (note 15).
- (b) The bank loans are denominated in RMB.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax assets

	Impairment losses on financial and contract assets <i>RMB'000</i>	Losses available for offsetting against future taxable profits <i>RMB'000</i>	Provision for accruals <i>RMB'000</i>	Total <i>RMB'000</i>
Gross deferred tax assets at 1 January 2019	771	–	242	1,013
Deferred tax credited to profit or loss during the year ( <i>note 10</i> )	3,024	914	7	3,945
Gross deferred tax assets at 31 December 2019 and 1 January 2020	3,795	914	249	4,958
Deferred tax credited/(charged) to profit or loss during the year ( <i>note 10</i> )	<b>(2,104)</b>	<b>(914)</b>	<b>53</b>	<b>(2,965)</b>
Gross deferred tax assets at 31 December 2020	<b>1,691</b>	–	<b>302</b>	<b>1,993</b>

### Deferred tax liabilities

	Fair value adjustments arising from investment properties <i>RMB'000</i>	Service concession arrangement <i>RMB'000</i>	Total <i>RMB'000</i>
Gross deferred tax liabilities at 1 January 2019	5,533	–	5,533
Deferred tax charged to profit or loss during the year ( <i>note 10</i> )	225	–	225
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020	5,758	–	5,758
Deferred tax (credited)/charged to profit or loss during the year ( <i>note 10</i> )	<b>(100)</b>	<b>1,018</b>	<b>918</b>
Gross deferred tax liabilities at 31 December 2020	<b>5,658</b>	<b>1,018</b>	<b>6,676</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 27. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	4,683	800
Net deferred tax liabilities	4,683	800

The Group has tax losses arising in Mainland China of RMB97,761,000 (2019: RMB27,167,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

The Group has tax losses arising in Hong Kong of RMB500,000 (2019: tax profits of RMB3,635,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The Group has tax losses arising in Vietnam of RMB1,473,000 (2019: RMB475,000) that are available for offsetting against future taxable profits of the companies in which the losses arose and will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2020 RMB'000	2019 RMB'000
Tax losses	6,598	247
Deductible temporary differences	24,993	–
	31,591	247

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 27. DEFERRED TAX *(continued)*

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of a subsidiary of the Group established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB9,868,000 at 31 December 2020 (2019: RMB109,422,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 28. SHARE CAPITAL

	2020		2019	
	HK\$000	RMB'000 equivalent	HK\$000	RMB'000 equivalent
Issued and fully paid: 300,000,000 ordinary shares of HK\$0.01 each	3,000	2,397	3,000	2,397

## 29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 58 of the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 30. DISPOSAL OF A SUBSIDIARY

	2019 <i>RMB'000</i>
Net assets disposed of:	
Property, plant and equipment	37,500
Cash and bank balances	97
Prepayments and other receivables	1,976
Accruals and other payables	(26,250)
Interest-bearing bank and other borrowings	(17,901)
	(4,578)
Gain on disposal of a subsidiary	4,578
Satisfied by:	
Cash	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2019 <i>RMB'000</i>
Cash and bank balances disposed of	(97)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	(97)

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB116,000 (2019: Nil) and RMB116,000 (2019: Nil), respectively, in respect of lease arrangements for office.

### (b) Changes in liabilities arising from financing activities

2020

	Bank and other loans <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>
At 1 January 2020	45,953	51
Changes from financing cash flows	(5,087)	(60)
New leases	–	116
Foreign exchange movement	–	(5)
Interest expense	2,452	38
Interest paid classified as operating cash flows	–	(38)
At 31 December 2020	43,318	102

2019

	Bank and other loans <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>
At 1 January 2019	82,901	108
Changes from financing cash flows	(22,395)	(57)
Interest expense	3,348	47
Interest paid classified as operating cash flows	–	(47)
Decrease arising from disposal of a subsidiary	(17,901)	–
At 31 December 2019	45,953	51

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within operating activities	38	47
Within financing activities	60	57
	98	104

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 32. PLEDGE OF ASSETS

Details of the Group's general banking facilities, which are secured by the assets of the Group, are included in notes 13, 14 and 15, respectively, to the financial statements.

## 33. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Purchases of items of equipment for projects	30,167	93,190
Capital contribution payable to joint venture companies	17,300	20,400
	<b>47,467</b>	113,590

## 34. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2019: Nil).

## 35. RELATED PARTY TRANSACTIONS

(a) The Group's balances with the directors are included in other payables (note 25 to the financial statements). All the balances are unsecured, interest-free and repayable on demand. Details are as follows:

	2020 RMB'000	2019 RMB'000
Mr. Xie Yang	140	60
Mr. He Xuan Xi	121	190
Ms. Gong Lan Lan	51	53
Mr. Tse Chi Wai	51	53
Mr. Ha Cheng Yong	51	53
Ms. Bai Shuang	51	53
	<b>465</b>	462

(b) Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Short term employee benefits	4,221	4,804

Further details of directors' and the chief executive's emoluments are disclosed in note 8 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Financial assets</b>		
Financial assets included in receivables under a service concession arrangement	57,819	–
Trade and bills receivables	95,614	158,528
Contract assets	50,611	147,720
Financial assets included in prepayments, other receivables and other assets	2,376	6,722
Pledged deposits	4,904	2,022
Cash and cash equivalents	46,611	24,863
	<b>257,935</b>	339,855

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Financial liabilities</b>		
Trade payables	125,625	147,059
Financial liabilities included in other payables and accruals	26,670	28,761
Interest-bearing bank and other borrowings	43,420	46,004
	<b>195,715</b>	221,824

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>				
Equity investment designated at fair value through other comprehensive income	1,500	1,500	1,500	1,500
<b>Financial liabilities</b>				
Interest-bearing bank borrowings	43,318	45,953	43,428	46,143

Management has assessed that the fair values of the current portion of receivables under a service concession arrangements, cash and cash equivalents, pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee periodically for annual financial reporting.

The fair values of the financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of receivables under a service concession arrangements and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2020 were assessed to be insignificant.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

#### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	–	–	1,500	1,500

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	–	–	1,500	1,500

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

#### Fair value hierarchy *(continued)*

Liabilities for which fair values are disclosed:

As at 31 December 2020

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings (other than lease liabilities)	–	43,428	–	43,428

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings (other than lease liabilities)	–	46,143	–	46,143

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as receivables under a service concession arrangement, trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Foreign currency risk

The monetary assets and transactions of the subsidiaries of the Group are principally denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK\$, US\$ and VND exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
<b>2020</b>			
If the RMB weakens against the VND	5	46	39
If the RMB strengthens against the VND	(5)	(46)	(39)
If the RMB weakens against the US\$	5	387	329
If the RMB strengthens against the US\$	(5)	(387)	(329)
If the RMB weakens against the HK\$	5	271	230
If the RMB strengthens against the HK\$	(5)	(271)	(230)
<b>2019</b>			
If the RMB weakens against the VND	5	1	1
If the RMB strengthens against the VND	(5)	(1)	(1)
If the RMB weakens against the US\$	5	473	402
If the RMB strengthens against the US\$	(5)	(473)	(402)
If the RMB weakens against the HK\$	5	838	712
If the RMB strengthens against the HK\$	(5)	(838)	(712)

\* Excluding retained profits

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

#### Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

#### As at 31 December 2020

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Receivables under a service concession arrangement	57,819	—	—	—	57,819
Trade and bills receivables*	—	—	—	157,264	157,264
Contract assets*	—	—	—	72,870	72,870
Financial assets included in prepayments, other receivables and other assets					
— Normal**	2,376	—	—	—	2,376
Pledged deposits					
— Not yet past due	4,904	—	—	—	4,904
Cash and cash equivalents					
— Not yet past due	46,611	—	—	—	46,611
	111,710	—	—	230,134	341,844

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Credit risk *(continued)*

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
	RMB'000	RMB'000	RMB'000		RMB'000	RMB'000
Trade and bills receivables*	—	—	—		176,413	176,413
Contract assets*	—	—	—		155,136	155,136
Financial assets included in prepayments, other receivables and other assets						
— Normal**	6,722	—	—		—	6,722
Pledged deposits						
— Not yet past due	2,022	—	—		—	2,022
Cash and cash equivalents						
— Not yet past due	24,863	—	—		—	24,863
	33,607	—	—		331,549	365,156

\* For trade and bills receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 and 21 to the financial statements, respectively.

\*\* The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 16% (2019: 22%) of the Group's trade and bills receivables were due from the Group's five largest customers.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments (i.e., principal and interest), was as follows:

#### 31 December 2020

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	More than 12 months RMB'000	Total RMB'000
Lease liabilities	–	11	43	48	102
Interest-bearing bank borrowings (excluding lease liabilities)	–	880	43,201	530	44,611
Trade payables	125,625	–	–	–	125,625
Financial liabilities included in other payables and accruals	26,670	–	–	–	26,670
	<b>152,295</b>	<b>891</b>	<b>43,244</b>	<b>578</b>	<b>197,008</b>

#### 31 December 2019

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	More than 12 months RMB'000	Total RMB'000
Lease liabilities	–	20	31	–	51
Interest-bearing bank borrowings (excluding lease liabilities)	–	930	42,440	3,498	46,868
Trade payables	147,059	–	–	–	147,059
Financial liabilities included in other payables and accruals	28,761	–	–	–	28,761
	<b>175,820</b>	<b>950</b>	<b>42,471</b>	<b>3,498</b>	<b>222,739</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank borrowing, trade payables and certain other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

The gearing ratios as at the end of the reporting periods were as follows:

	2020 RMB'000	2019 RMB'000
Interest-bearing bank and other borrowings <i>(note 26)</i>	43,420	46,004
Trade payables	125,625	147,059
Financial liabilities included in other payables and accruals <i>(note 25)</i>	26,670	28,761
Less: Cash and cash equivalents	(46,611)	(24,863)
Net debt	149,104	196,961
Total capital	91,901	198,932
Capital and net debt	241,005	395,893
Gearing ratio	62%	50%

## 39. EVENTS AFTER THE REPORTING PERIOD

On 26 January 2021, Great Water Guangzhou, the subsidiary of the Company, disposed of 10% equity interest in Guangzhou Environmental Technology Company Limited to the Second Investor, Guangzhou Environment Investment Group Limited. As at the date of this report, the capital contributions have yet to be made. The disposal was at nil consideration. Upon completion of the disposal, the outstanding capital contribution of Great Water Guangzhou will be reduced to RMB1,900,000.

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT ASSETS		
Investment in a subsidiary	50,347	53,554
Total non-current assets	50,347	53,554
CURRENT ASSETS		
Prepayments, other receivables and other assets	36,493	43,908
Total current assets	36,493	43,908
CURRENT LIABILITIES		
Other payables and accruals	554	524
Total current liabilities	554	524
NET CURRENT ASSETS	35,939	43,384
TOTAL ASSETS LESS CURRENT LIABILITIES	86,286	96,938
NET ASSETS	86,286	96,938
EQUITY		
Share capital	2,397	2,397
Reserves ( <i>note</i> )	83,889	94,541
TOTAL EQUITY	86,286	96,938

# NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	103,125	8,270	(14,238)	97,157
Loss for the year	–	–	(4,764)	(4,764)
Exchange differences on translation of foreign operations	–	2,148	–	2,148
At 31 December 2019 and 1 January 2020	103,125	10,418	(19,002)	94,541
Loss for the year	–	–	(5,119)	(5,119)
Exchange differences on translation of foreign operations	–	(5,533)	–	(5,533)
At 31 December 2020	<b>103,125</b>	<b>4,885</b>	<b>(24,121)</b>	<b>83,889</b>

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2021.

## FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 <b>RMB'000</b>
<b>RESULTS</b>					
Revenue	179,329	247,550	178,450	121,601	<b>75,624</b>
Profit/(loss) before tax	46,402	50,883	12,452	(28,771)	<b>(104,853)</b>
Income tax credit/(expense)	(8,181)	(9,133)	(4,396)	4,979	<b>(1,793)</b>
Profit/(loss) for the year	38,221	41,750	8,056	(23,792)	<b>(106,646)</b>
Attributable to:					
Owners of the parent	38,223	41,812	8,362	(24,157)	<b>(106,646)</b>
Non-controlling interests	(2)	(62)	(306)	365	<b>–</b>
	38,221	41,750	8,056	(23,792)	<b>(106,646)</b>
<b>ASSETS, LIABILITIES AND NON CONTROLLING INTERESTS</b>					
Total assets	305,666	441,957	486,092	432,027	<b>319,439</b>
Total liabilities	(128,463)	(226,573)	(264,264)	233,101	<b>227,544</b>
Total equity	177,203	215,384	221,828	198,926	<b>91,895</b>
Equity attributable to owners of the parent	177,205	215,448	222,199	198,932	<b>91,901</b>
Non-controlling interests	(2)	(64)	(371)	(6)	<b>(6)</b>
Total equity	177,203	215,384	221,828	198,926	<b>91,895</b>