The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountant's Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[DRAFT]

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TIL ENVIRO LIMITED AND RED SUN CAPITAL LIMITED

Introduction

We report on the historical financial information of TIL Enviro Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-3 to I-53, which comprises the combined statements of financial position as at 31 December 2015, 2016 and 2017, the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-3 to I-53 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated ***[REDACTED]*** (the "**Document**") in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Group as at 31 December 2015, 2016 and 2017 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 14 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[Date]

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong thousand ("**HK$'000**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Combined Income Statements

		Year ended 31 December		
	Note	**2015**	**2016**	**2017**
		HK$'000	*HK$'000*	*HK$'000*
Revenue	*5*	250,521	207,419	366,381
Cost of sales	*8*	(137,160)	(95,450)	(233,597)
Gross profit		113,361	111,969	132,784
Other income	*6*	3,360	2,514	2,847
Other gains/(losses), net	*7*	3,358	982	(3,083)
General and administrative expenses	*8*	(8,450)	(9,918)	(10,017)
Operating profit		111,629	105,547	122,531
Finance costs	*11*	(50,835)	(42,818)	(41,972)
Profit before income tax		60,794	62,729	80,559
Income tax expense	*12*	(15,741)	(17,174)	(21,659)
Profit for the year		45,053	45,555	58,900
Profit for the year attributable to:				
Owners of the Company		45,596	46,218	58,915
Non-controlling interest		(543)	(663)	(15)
		45,053	45,555	58,900
Earnings per share for profit attributable to owners of the Company				
— Basic and diluted	*13*	N/A	N/A	N/A

Combined Statements of Comprehensive Income

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Profit for the year	45,053	45,555	58,900
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences	(26,829)	(37,912)	42,253
Total comprehensive income for the year	18,224	7,643	101,153
Total comprehensive income attributable to:			
Owners of the Company	18,935	8,167	101,409
Non-controlling interest	(711)	(524)	(256)
	18,224	7,643	101,153

Combined Statements of Financial Position

		As at 31 December		
	Note	**2015**	**2016**	**2017**
		HK$'000	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*15*	1,191	1,089	1,700
Receivable under service concession arrangement	*16*	1,111,732	986,953	1,153,512
Intangible assets	*17*	51,196	47,682	59,496
Restricted bank balances	*20*	4,776	4,472	4,785
Other non-current assets	*27*	46,055	43,119	46,143
		1,214,950	1,083,315	1,265,636
Current assets				
Inventories	*18*	440	269	364
Trade and other receivables	*19*	5,548	10,961	36,126
Receivable under service concession arrangement	*16*	114,686	236,388	251,359
Amounts due from fellow subsidiaries	*30(b)*	14,969	13,993	17,962
Financial assets at fair value through profit or loss	*25*	82,181	58,997	66,873
Restricted bank balances	*20*	—	—	6,580
Cash and cash equivalents	*20*	37,972	80,214	130,141
		255,796	400,822	509,405
Total assets		1,470,746	1,484,137	1,775,041
EQUITY				
Capital and reserves				
Share capital	*21*	1	1	1
Reserves	*22*	(12,213)	(50,264)	(7,770)
Retained earnings		97,050	143,268	202,183
		84,838	93,005	194,414
Non-controlling interest		(12,148)	(12,672)	(12,928)
Total equity		72,690	80,333	181,486

		As at 31 December		
	Note	**2015**	**2016**	**2017**
		HK$'000	*HK$'000*	*HK$'000*
LIABILITIES				
Non-current liabilities				
Borrowings	*23*	700,645	673,939	700,356
Deferred tax liabilities	*26*	50,413	63,649	90,371
		751,058	737,588	790,727
Current liabilities				
Trade and other payables	*24*	73,544	85,961	134,062
Amount due to Taliworks Corporation Berhad	*30(c)*	534,482	—	—
Amount due to LGB Group (HK) Limited	*30(c)*	—	535,161	595,739
Amounts due to fellow subsidiaries	*30(b)*	4,771	4,467	4,780
Amounts due to related companies	*30(b)*	6	13	146
Current portion of long-term borrowings	*23*	17,479	26,640	48,960
Short-term borrowings	*23*	16,716	13,974	19,141
		646,998	666,216	802,828
Total liabilities		1,398,056	1,403,804	1,593,555
Total equity and liabilities		1,470,746	1,484,137	1,775,041
Net current liabilities		391,202	265,394	293,423
Total assets less current liabilities		823,748	817,921	972,213

Combined Statements of Changes in Equity

	Equity attributable to owners of the Group					
	Share capital	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	1	14,448	51,454	65,903	(11,437)	54,466
Profit for the year	—	—	45,596	45,596	(543)	45,053
Other comprehensive income						
Currency translation differences	—	(26,661)	—	(26,661)	(168)	(26,829)
At 31 December 2015	1	(12,213)	97,050	84,838	(12,148)	72,690
Profit for the year	—	—	46,218	46,218	(663)	45,555
Other comprehensive income						
Currency translation differences	—	(38,051)	—	(38,051)	139	(37,912)
At 31 December 2016	1	(50,264)	143,268	93,005	(12,672)	80,333
Profit for the year	—	—	58,915	58,915	(15)	58,900
Other comprehensive income						
Currency translation differences	—	42,494	—	42,494	(241)	42,253
At 31 December 2017	1	(7,770)	202,183	194,414	(12,928)	181,486

Combined Statements of Cash Flows

	Note	Year ended 31 December 2015 HK$'000	2016 HK$'000	2017 HK$'000
Cash flows from operating activities				
Cash generated from operations	*28(a)*	48,646	41,046	35,709
Net cash generated from operating activities		48,646	41,046	35,709
Cash flows from investing activities				
Purchases of property, plant and equipment		(15)	(240)	(736)
Proceeds from disposal of property, plant and equipment		53	126	8
Additions of financial assets at fair value through profit or loss		(134,310)	(17,910)	(35,889)
Proceeds from the disposals of financial assets at fair value through profit or loss		50,520	35,773	31,104
Interest received		296	429	641
Net cash (used in)/generated from investing activities		(83,456)	18,178	(4,872)
Cash flows from financing activities				
Proceeds from borrowings		94,017	62,925	47,254
Repayments of borrowings		(34,596)	(35,207)	(43,564)
Interest paid		(50,975)	(42,833)	(42,108)
Changes in amount due to Taliworks Corporation Berhad	*28*	3,150	—	—
Changes in amount due to LGB Group (HK) Limited	*28*	—	856	55,397
Net cash generated from/(used in) financing activities		11,596	(14,259)	16,979
Net (decrease)/increase in cash and cash equivalents		(23,214)	44,965	47,816
Cash and cash equivalents at beginning of year		63,197	37,972	80,214
Currency translation differences		(2,011)	(2,723)	2,111
Cash and cash equivalents at end of year	*20*	37,972	80,214	130,141

II NOTES TO THE FINANCIAL INFORMATION

1 General information, reorganisation and basis of presentation

1.1 General information

TIL Enviro Limited (the "**Company**") was incorporated in the Cayman Islands on 17 April 2018 with limited liability. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108. The immediate holding company is Sparkle Century Group Limited ("**Sparkle Century**"), a limited liability company incorporated in the British Virgin Islands. The ultimate holding company is LGB (Malaysia) Sdn Bhd ("**LGB (Malaysia)**"), a private limited liability company incorporated in Malaysia. The ultimate controlling shareholders of the Group are Mr. Lim Chee Meng ("**Mr. CM Lim**") and Mr. Lim Chin Sean ("**Mr. CS Lim**") (the "**Controlling Shareholders**").

The Company is an investment holding company, and its subsidiaries comprising the Group are principally engaged in the wastewater treatment business in the People's Republic of China (the "**PRC**") (the "**[REDACTED]**").

During the Track Record Period, the Group hold 70% equity interest in Taliworks Eco Pte Ltd. ("**TECO**"). This subsidiary has been disposed of before the completion of reorganisation.

1.2 Reorganisation

Prior to the incorporation of the Company and the group reorganisation (the "**Reorganisation**", as explained below), the [REDACTED] was carried out by Taliworks International Limited ("**TIL**") and its subsidiaries. In preparation for the [REDACTED] and [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**[REDACTED]**"), the Group underwent the Reorganisation as follows:

(i) Sparkle Century was incorporated in the British Virgin Islands ("**BVI**") as a limited liability company on 6 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each and one share was issued and allotted, credited as fully paid, to LGB Group (HK) Limited ("**LGB (HK)**").

(ii) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 April 2018. As at the date of incorporation, the Company has an authorised share capital of HK$380,000 divided into 38,000,000 shares with a par value of HK$0.01 each. At the time of incorporation, one nil paid share was issued and allotted to an initial subscriber and was subsequently transferred to Sparkle Century, while Sparkle Century was wholly-owned by LGB (HK).

(iii) White Empire Group Limited ("**White Empire**") was incorporated in BVI as a limited liability company on 12 February 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 9 May 2018, one ordinary share with a par value of US$1 of White Empire, representing the then entire issued share capital of White Empire, was issued and allotted to the Company at par and credited as fully paid.

(iv) On 11 April 2018, TIL (as vendor) and LGB (HK) (as purchaser) entered into a sale and purchase agreement pursuant to which, TIL agreed to sell and LGB (HK) agreed to purchase 70% equity interest held by TIL in TECO. As consideration, LGB (HK) agreed to pay TIL SG$1 as cash consideration (which was determined by the parties with reference to the net loss position of TECO); and assume absolutely and unconditionally all liabilities of TECO owed to TIL by entering into a deed of novation on the same day with TIL and TECO. The transactions were properly and legally completed and settled on 11 April 2018, following which TECO and its subsidiary ceased to be subsidiaries of TIL.

(v) On 10 May 2018, White Empire (as purchaser), LGB (HK) (as vendor), the Company, Sparkle Century, and TIL entered into a sale and purchase agreement, pursuant to which, LGB (HK) agreed to transfer the entire issued share capital of TIL to White Empire. In consideration for such transaction, as directed by LGB (HK) and procured by White Empire, (a) White Empire agreed to issue and allot one ordinary share, credited as fully paid, to the Company; (b) the Company agreed to credit one nil-paid share held by Sparkle Century as fully paid; (c) the Company agreed to issue and allot 9,999 shares, all credited as fully paid, to Sparkle Century; (d) Sparkle Century agreed to issue and allot one ordinary share, credited as fully paid, to LGB (HK); and (e) the Company agreed to assume the debt owed by TIL to LGB (HK) prior to the transaction. On the same day, TIL, the Company and LGB (HK) entered into a deed of novation for assumption of the aforesaid debt of TIL, following which the aforesaid debt became due from the Company to LGB (HK). The transactions were properly and legally completed and settled on 10 May, following which TIL became wholly-owned by White Empire.

Upon completion of the Reorganisation, the Company has become the then holding company of the other companies comprising the Group.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private limited liability companies and the particulars of which are set out below:

			Percentage of equity attributable to the Group							
			31 December			As at		Name of statutory auditors		
Name	Place and date of incorporation/ establishment	Issued or registered paid up capital	2015	2016	2017	the date of this report	Principal activities	2015	2016	2017
White Empire Group Limited	BVI, 12 February 2018	US dollar 1	—	—	—	100%	Investment holding	N/A	N/A	N/A
Taliworks-IBI Technologies International Limited	Hong Kong, 4 June 2007	HK$200,000	70%	70%	70%	70%	In the process of winding up	N/A	N/A	N/A
Taliworks International Limited	Hong Kong, 27 September 2002	HK$100	100%	100%	100%	100%	Investment holding	(ii)	(ii)	(ii)
Taliworks (Shanghai) Co., Ltd.	The PRC, 24 July 2005	US dollars 125,000	100%	100%	100%	100%	Inactive	(i)	(i)	(i)
Taliworks Eco Pte Ltd.	Singapore, 4 March 2008	Singapore dollars 100,000	70%	70%	70%	—	Investment holding	(iii)	(iii)	(iii)
Taliworks (Shanghai) Environmental Technologies Co., Ltd.	The PRC, 5 November 2008	US dollars 1,500,000	100%	100%	100%	100%	Consultancy service	(i)	(i)	(i)
Taliworks Environment Limited	Hong Kong, 16 December 2008	HK$10,000	100%	100%	100%	100%	Inactive	(ii)	(ii)	(ii)
Tilgea Consortium Sdn Bhd	Malaysia, 20 May 2010	Malaysian Ringgit 1,000,000	70%	70%	70%	—	Dormant	(v)	(v)	(v)
Ningxia Eco Wastewater Treatment Co., Ltd.	The PRC, 17 June 2010	US dollars 4,200,000	70%	70%	70%	—	Inactive	(iv)	(iv)	(iv)
Taliworks (Yinchuan) Wastewater Treatment Co., Ltd.	The PRC, 6 May 2011	US dollars 75,880,000	100%	100%	100%	100%	Wastewater treatment	(iv)	(iv)	(iv)

(i) The statutory financial statements were audited by CAC CPA Limited Liability Partnership

(ii) The statutory financial statements were audited by Eric Mok & Co., Limited

(iii) The statutory financial statements were audited by Uhy Lee Seng Chan & Co

(iv) The statutory financial statements were audited by 寧夏天華會計師事務所

(v) The statutory financial statements were audited by Deloitte PLT Chartered Accountants

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] is held by TIL and its subsidiaries, which were owned and controlled by the Controlling Shareholders. Pursuant to the Reorganisation, TIL and the [REDACTED] are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the shareholding structure of the [REDACTED] with no changes in management of such business and the ultimate owners of the [REDACTED] remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the [REDACTED] under TIL and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of TIL and its subsidiaries, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the [REDACTED] under the consolidated financial statements of TIL for all years presented, since the respective dates of incorporation/establishment of the combining entities, or since the date when the combining companies first came under the control of the Controlling Shareholders, whichever is the earlier.

The Historical Financial Information also included the assets and liabilities of TECO and its subsidiary because they were not managed separately and were financially controlled within the Group and its operations were integral part of the [REDACTED] during the Track Record Period. Their financial information is disclosed in note 27.

2 Summary of accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and under the historical cost convention, as modified by the valuation of financial assets at fair value through profit or loss, which have been measured at fair value.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

As at 31 December 2015, 2016, and 2017, the Group had net current liabilities of HK$391,202,000, HK$265,394,000 and HK$293,423,000 respectively. The shortfall in net current liabilities was primarily attributable to amounts due to Taliworks Corporation Berhad ("**TCB**"), the former immediate holding company (HK$534,482,000 as at 31 December 2015), and LGB (HK), the current immediate holding company (HK$535,161,000 and HK$595,739,000 as at 31 December 2016 and 2017 respectively), which have been capitalised after the year end (note 31).

The directors have reviewed the Group's cash flow projections and have made due enquiries and considered the basis and assumptions of management's projections as described above. The directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows, and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2017. Accordingly, the Historical Financial Information have been prepared on a going concern basis.

*Early adoption of Hong Kong Financial Reporting Standard 9 "Financial instruments" ("**HKFRS 9**")*

The Group has early adopted HKFRS 9 for the years ended 31 December 2015, 2016 and 2017 in the Underlying Financial Statements. The new accounting policies replace the provisions of HKAS 39 Financial Instruments: Recognition and Measurement (HKAS 39) in relation to (i) recognition, classification and measurement of financial assets and financial liabilities; (ii) derecognition of financial instruments; (iii) impairment of financial assets; and (iv) hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments: Disclosures. The new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

Early adoption of Hong Kong Financial Reporting Standard 15 "Revenue from contracts with customers" ("HKFRS 15")

HKFRS 15 as issued by the HKICPA is effective for the financial year beginning or after 1 January 2018.

The Group has elected to early adopt HKFRS 15 for the years ended 31 December 2015, 2016 and 2017 in the Underlying Financial Statements because the new accounting standard provides more reliable and relevant information for users to assess the amounts, timing and uncertainty of revenue and cash flows.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer.

Standards, amendments to standards and interpretation which are not yet effective

The following new standards and amendments to existing standards have been issued but not yet effective for the financial period of the Group beginning on 1 January 2018 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 2 Amendments	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 Amendments	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018
HKAS 40	Transfers of investment property	1 January 2018
HK(IFRIC) — Int 22	Foreign currency transactions and advance consideration	1 January 2018
Annual Improvements 2014–2016 Cycle	Improvement to HKFRS	1 January 2018
HKFRS 16	Leases	1 January 2019
HK(IFRIC) — Int 23	Uncertainty over income tax treatments	1 January 2019
Annual Improvements 2015–2017 Cycle	Improvement to HKFRS	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the related impact to the Group of the above standards and amendments that are relevant to the Group upon initial application. According to the preliminary assessment made by the directors of the Company, management does not anticipate any significant impact on the Group's financial positions and results of operations except as disclosed below.

HKFRS 16, "Leases"

HKFRS 16 results in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term or low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$747,000. This will result in the recognition of an asset and a liability for future payments, and the Group expects there will not be any material effect on the profit or loss.

Some of the commitments may be covered by the exception for short-term or low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory to the Group's reporting period beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2.2 Subsidiaries

2.2.1 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are combined from the date on which control is transferred to the Group. They are decombined from the date that control ceases.

Business combinations under acquisition accounting

The acquisition method of accounting is used to account for business combination by the Group other than business combination under common control. The consideration transferred for the acquisition of a subsidiary or business is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

(ii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in combined income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognised in other comprehensive income are reclassified to combined statement of equity as specified/permitted by applicable HKFRSs.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performances of the operating segments, has been identified as the management that make strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The Historical Financial Information are presented in Hong Kong dollars ("**HK$**"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated to write off the cost to their residual value on a straight-line basis over the expected useful lives. The useful lives or principal annual rates used are:

Furniture, fixtures and equipment	20%–33%
Motor vehicles	10%–25%
Computer equipment	20%–33.3%

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "Other gains/(losses), net" in profit or loss.

2.6 Intangible assets

(i) Service concession right

The Group applies the intangible asset model to account for the water infrastructures as service concession right where they are paid by the users of the water concession services and the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of costs incurred to be recoverable. The intangible assets correspond to the rights granted by the respective concession grantors to the Group to charge users of the water concession service.

Service concession right is initially recognised at fair value of the consideration paid and subsequently stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation of service concession right is calculated to write off their costs on a straight-line basis over the term of operation until September 2041. Both period and method of amortisation are reviewed at each finance reporting date.

(ii) Computer softwares

The intangible assets other than goodwill are measured initially at cost, and subsequently amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses.

2.7 Service concession arrangement

The Group has entered into a service concession arrangement with a governmental authority (the "**Grantor**"). The service concession arrangement is a Transfer-Operate-Transfer (the "**TOT**") arrangement. Under TOT arrangement, the Group pays consideration for the right from the Grantor to operate the wastewater and recycled water treatment plants that has been built and receives in return a right to operate the service project concerned for a specified period of time (the "**Service Concession Period**") in accordance with the pre-established conditions set by the Grantor, and the service project should be transferred to the Grantor at zero consideration at the end of the Service Concession Period. Furthermore, the Group is required to complete certain upgrading and expansion works within the prescribed timelines as specified or approved by the Grantor.

The Group is generally entitled to use the facilities, however, the relevant governmental authority as the Grantor will control and regulate the scope of service that the Group must provide with the facilities, and retain the beneficial entitlement to any residual interest in the facilities at the end of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to restore the facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

(i) Consideration given by the Grantor

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

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantor for the services rendered; 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 amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset is accounted for in accordance with the policy set out for "Financial assets" in note 2.9.

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

If the Group is paid for the services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

(ii) Construction and upgrade services

The fair value of the construction and upgrade services under the concession arrangement is calculated as the estimated total construction cost plus a profit margin. The profit margins are valued by an independent qualified valuer, based on prevailing market rate applicable to similar construction services rendered in similar location at date of agreement.

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19.

(iii) Revenue relating to operating service

Revenue relating to operating service are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19. Costs for operating services are expensed in the period in which they are incurred.

(iv) Finance income

Finance income in relation to the service concession arrangement are accounted for in accordance with the policy set out for "Revenue recognition" in note 2.19.

(v) Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licences, that is to maintain the wastewater and recycled water treatment and water distribution plants it operates to a specified level of serviceability. These contractual obligations to maintain or restore the wastewater and reclaimed water treatment, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" in note 2.17.

2.8 Impairment of non-financial assets

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

2.9 Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Measurement

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets are classified as current assets if expected to be settled within 12 months or in the normal operating cycle of the business, otherwise, they are classified as non-current.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income (''FVOCI''): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive is reclassified from equity to profit or loss and recognised in ''Other gains/(losses), net''. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in ''Other gains/(losses), net''.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the income statement within ''Other gains/(losses), net'' in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in ''Other gain/(losses), net'' in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through other comprehensive income and trade receivables and contract assets that contain significant financing component. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment on these financial assets are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

— Actual or expected significant adverse changes in external credit rating of the debtors

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

— actual or expected significant changes in the operating results of the borrower

— significant increases in credit risk on other financial instruments of the same borrower

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

2.10 Inventories

Inventories primarily represents chemicals and are stated at the lower of cost and net realisable value.

Cost, being cost of purchase, is determined on a first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.12 Share capital

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

2.13 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less after the end of the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction of production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use of sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the combined income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at each of the reporting dates in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central retirement benefit scheme operated by the local municipal or provincial government. The subsidiaries in the PRC are required to contribute a percentage of their payroll costs to the central retirement benefit scheme. The Group has no further payment obligations once the contributions have been paid.

(iii) Bonus plans

The Group recognises a provision where contractually obliged or when it prepares to declare discretionary bonus after evaluating employee performance as well as the financial performance of business units.

2.17 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the services and sales of recycle water in the ordinary course of the Group's activities. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset. Specific criteria where revenue is recognised are described below.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

(i) Rendering of wastewater treatment operation services

Revenue from wastewater treatment operation services is recognised over the period when the services are rendered and the Group's performance provides all of the benefits received and consumed simultaneously by the customer.

(ii) Recycle water supply operation services

Revenue from recycle water supply operation services is recognised at a point in time, when a Group entity has delivered water to the customer; the customer has accepted the water; the Group has present right to payment and the collection of the consideration is probable.

(iii) Revenue from wastewater treatment construction services

Revenue from wastewater treatment construction services is recognised over time as the Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced. Thus, the Group satisfies a performance obligation over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In determining the transaction price, the Group adjusts the amount of consideration for the effect of a financing component if it is significant.

(iv) Finance income

Finance income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Management fees

Management fees are recognised over the period when the services are rendered.

2.20 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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 key management personnel of the entity (or of a parent of the entity).

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

(c) Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2.21 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of considerations is due) from the customer exceed the measure of the remaining unsatisfied performance obligations.

The Group recognises the costs of obtaining and fulfilling a contract with a customer within contract assets if the Group expects to recover those costs.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign currency risk

The Group principally operates in the PRC with most of the transactions being settled in Renminbi ("**RMB**"), which is the functional currency of most of the group entities. Foreign currency risk arises from the recognised assets and liabilities and net investments in foreign operations. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through financing activities denominated in the relevant foreign currencies. The group entities are exposed to foreign exchange risk of foreign currencies other than their functional currencies, primarily with respect to the United States dollars ("**US$**") (the "**Non-functional currency**").

Fluctuations in exchange rates between the functional currencies of respective group entities and Non-functional currency in which the group entities conducts business may affect the Group's financial position and results of operations. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimising its net foreign currency position.

Sensitivity analysis

The sensitivity analysis includes Non-functional currency denominated monetary items and adjusts their translation at the year-end for a 1% change in Non-functional currency with all other variables held constant. If Non-functional currency had strengthened/weakened by 1% against the respective functional currencies of group entities, the net profit for the year of the Group would decrease/increase by approximately HK$4,692,000, HK$4,574,000 and HK$5,172,000 respectively for the years ended 31 December 2015, 2016 and 2017.

(ii) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk primarily arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest risk which is partially offset by cash held at variable rates. The Group's interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Sensitivity analysis

If the interest rates had been increased/decreased by 100 basis points at the end of the year and all other variables were held constant, the Group's profit after income tax would decrease/increase by approximately HK$5,191,000, HK$4,724,000, and HK$4,702,000 respectively for the years ended 31

December 2015, 2016 and 2017. The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represent management's assessment of a reasonably possible change in interest rate over the next twelve month period.

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The credit risk of the Group's financial assets, which mainly comprise cash and cash equivalents and restricted bank balances, receivable under service concession arrangement, trade and other receivables, amounts due from fellow subsidiaries, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in cash and cash equivalents and restricted bank balances mitigated as cash is deposited with banks in Hong Kong and the PRC with high credit rating.

For receivable under service concession arrangement and trade and other receivables, the customers are primarily local government's related entities and management considers the credit risk is not high. Management has closely monitored the credit qualities and the collectability of these receivables and consider that the expected credit risks of them are minimal. For details, please refer to note 16 and note 19.

A default on a financial asset is normally defined as when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group categorises a loan or receivable for consideration of write off case-by-case when a debtor fails to make contractual payments greater than 120 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data.

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and meet its short-term and long-term funding requirements. The Group relies on internally generated funding, borrowings and funding from intermediate holding company as significant sources of liquidity.

The maturity profile of the Group's financial liabilities as at the reporting dates, based on the undiscounted contractual payments, were as follows:

Group	Less than 1 year or no fixed term of repayment	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2015					
Borrowings and interest thereon	71,523	80,937	326,829	752,659	1,231,948
Trade and other payables	64,230	5,228	—	—	69,458
Amount due to TCB	534,482	—	—	—	534,482
Amounts due to fellow subsidiaries	4,771	—	—	—	4,771
Amounts due to related companies	6	—	—	—	6
At 31 December 2016					
Borrowings and interest thereon	66,964	75,778	305,998	704,688	1,153,428
Trade and other payables	54,097	11,371	—	—	65,468
Amount due to LGB (HK)	535,161	—	—	—	535,161
Amounts due to fellow subsidiaries	4,467	—	—	—	4,467
Amounts due to related companies	13	—	—	—	13
At 31 December 2017					
Borrowings and interest thereon	71,661	81,093	327,458	754,109	1,234,321
Trade and other payable	133,635	6	—	—	133,641
Amount due to LGB (HK)	595,739	—	—	—	595,739
Amounts due to fellow subsidiaries	4,780	—	—	—	4,780
Amounts due to related companies	146	—	—	—	146

(d) Fair value measurements

(i) Financial instruments not measured at fair value

Financial instruments not measured at fair value include receivable under service concession arrangement, restricted bank balances, cash and cash equivalents, trade and other receivables, amounts due from/to group and related companies, borrowings, and trade and other payables. The directors consider that the carrying amount of these financial assets and liabilities approximate their fair value at 31 December 2015, 2016 and 2017.

(ii) Financial instruments measured at fair value

Fair value hierarchy

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets measured at fair value in the Historical Financial Information are grouped into the fair value hierarchy as follows:

Level 2		**As at 31 December**	
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Financial asset at fair value through profit or loss	82,181	58,997	66,873

There have been no transfers between any levels during the Track Record Period.

3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged for the years ended 31 December 2015, 2016 and 2017.

The capital structure of the Group consists of net debt, which includes various types of borrowings, such as bank borrowings and amount due to TCB/LGB (HK), less cash and cash equivalents; and equity, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

The Group monitors its capital structure on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt less cash and cash equivalents.

The gearing ratios were as follows:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Borrowings	734,840	714,553	768,457
Amount due to TCB/LGB (HK)	534,482	535,161	595,739
Total debt	1,269,322	1,249,714	1,364,196
Less: Cash and cash equivalent	(37,972)	(80,214)	(130,141)
Net debt	1,231,350	1,169,500	1,234,055
Total equity	72,690	80,333	181,486
Total capital	1,304,040	1,249,833	1,415,541
Gearing ratio	94.4%	93.6%	87.2%

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

4.1 Service concession arrangement

As explained in notes 2.6(i) and 2.7, the Group recognises the consideration received or receivable in exchange for the services as a financial asset and/or an intangible asset under the service concession arrangement. If the Group is paid for the services partly by a financial asset and partly by any intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible assets component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, the operating margin (39.0%), interest rate 6.75%, expected future income generated from these infrastructure over its Service Concession Periods including future guaranteed receipts and unguaranteed receipts, treated effluent volume, inflation of operating costs (3.0%), and also to choose a suitable post-tax discount rate (9.78%) in order to calculate the present value of the financial asset component and intangible assets component. These estimates are determined by the Group's management based on their experience and assessment on current and future market condition. Any change in the expected cash flows will result in change in the carrying values of the financial asset component, and the intangible asset component accordingly.

The fair value of the upgrade services under the service concession arrangements is calculated as the estimated total construction cost plus a profit margin. The construction margin (10.0%) is adopted by an independent qualified valuer, based on prevailing market rate applicable to similar construction service rendered. Revenue relating to construction or upgrade services are accounted for in accordance with the accounting policy in note 2.19.

Imputed interest income is recognised from time to time on receivable under the service concession arrangement on an accrual basis using the effective interest method by discounting the estimated future cash receipts over the Service Concession Periods at the estimated effective interest rate computed at initial recognition.

If the final outcome of the future cash flows is different from the estimates, this will be adjusted as a change of the carrying value of the relevant receivable under service concession arrangement in the combined income statement.

According to the TOT agreement entered into by the Group and the Grantor in September 2011, the Grantor will compensate the Group if there is any change in the tax rules of Business Tax ("BT") or Value-Added Tax ("VAT") during the Service Concession Periods leading to increase in the Group's operating costs.

On 9 December 2008, the Ministry of Finance and the State Administration of Taxation jointly issued *Notice on Value Added Tax Policy Regarding Comprehensive Utilisation of Resources and Other Products* Caishui [2008] No.156 (hereinafter referred to as Caishui [2008] No.156). According to Caishui [2008] No.156, with effect from 1 January 2009, taxpayers engaged in the wastewater processing business and sales of reclaimed water are eligible for 100% VAT exemption if they satisfy the requirements as set out in Caishui [2008] No.156 and obtain the Certificate of Comprehensive Utilisation of Resources. On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the *Notice on Preferential Value-added Tax Catalogue for Products and Services Involving Comprehensive Utilisation of Resources,* Caishui [2015] No.78 (hereinafter referred to as Caishui [2015] No.78). According to Caishui [2015] No.78, taxpayers engaged in the wastewater processing business and sales of reclaimed water are required to pay VAT with effect from 1 July 2015, with 70% and 50% of the VAT in relation to the wastewater processing business and sales of reclaimed water respectively refunded upon VAT being paid.

During the six months ended 30 June 2015, the Group was exempted from VAT according to Caishui [2008] No.156. Since 1 July 2015, 70% and 50% of the VAT paid by the Group in relation to the wastewater processing business and the sales of reclaimed water respectively were refunded according to Caishui [2015] No.78, and the Group was entitled to claim and have claimed the Grantor for the balance of the VAT payment under the TOT agreement. Hence management considered there is reasonable assurance to assume these compensations will be continuously received throughout the Service Concession Periods. When the expectation is different from the original estimate, such differences will impact the segregation of the consideration between the financial asset component and the intangible asset component.

The assumptions used in the assessment are highly judgemental and interrelated, the change of one key assumption will trigger corresponding changes in other assumptions. For illustration purposes, a hypothetical change in these key assumptions would have the following changes to the financial position of the Group for the years ended 31 December 2015, 2016, and 2017.

As at and for the year ended 31 December 2015

Key assumptions	**Hypothetical changes**	**Receivable under service concession arrangement**	**Intangible assets**	**Profit after tax**
		Increase/(decrease)	*Increase/(decrease)*	*Increase/(decrease)*
		HK$'000	*HK$'000*	*HK$'000*
Operating margin	-1.0%	9,680	(7,731)	331
	+1.0%	(9,680)	7,731	(331)
Interest rate	–0.5%	(10,046)	(3,392)	(2,661)
	+0.5%	16,772	(2,156)	2,873
Construction margin	–0.5%	1,871	(1,826)	(162)
	+0.5%	(1,871)	1,826	163
Expected tariffs on future receipts	–2.0%	922	(2,730)	(508)
	+2.0%	3,125	3,074	1,614
Inflation of operating costs	+0.5%	(22,656)	(4,217)	5,868
	–0.5%	19,755	3,066	(5,046)
Discount rate	+0.5%	2,218	(1,771)	76
	–0.5%	(2,349)	1,876	(80)
VAT refund	Reduction of 30%	(4,705)	(5,122)	(2,563)

As at and for the year ended 31 December 2016

Key assumptions	Hypothetical changes	Receivable under service concession arrangement	Intangible assets	Profit after tax
		Increase/(decrease)	*Increase/(decrease)*	*Increase/(decrease)*
		HK$'000	*HK$'000*	*HK$'000*
Operating margin	-1.0%	9,376	(7,201)	274
	+1.0%	(9,376)	7,201	(274)
Interest rate	–0.5%	(12,379)	(3,159)	(2,316)
	+0.5%	18,859	(2,008)	2,480
Construction margin	–0.5%	1,791	(1,707)	34
	+0.5%	(1,791)	1,707	(34)
Expected tariffs on future receipts	–2.0%	(76)	(2,542)	(725)
	+2.0%	5,735	2,863	2,188
Inflation of operating costs	+0.5%	(29,274)	(3,928)	6,297
	–0.5%	25,482	2,856	(5,459)
Discount rate	+0.5%	2,148	(1,650)	63
	–0.5%	(2,275)	1,747	(67)
VAT refund	Reduction of 30%	(8,875)	(4,770)	(3,481)

As at and for the year ended 31 December 2017

Key assumptions	Hypothetical changes	Receivable under service concession arrangement	Intangible assets	Profit after tax
		Increase/(decrease)	*Increase/(decrease)*	*Increase/(decrease)*
		HK$'000	*HK$'000*	*HK$'000*
Operating margin	-1.0%	11,790	(8,985)	349
	+1.0%	(11,790)	8,985	(349)
Interest rate	–0.5%	(16,997)	(3,941)	(3,146)
	+0.5%	25,204	(2,505)	3,405
Construction margin	–0.5%	1,537	(2,170)	(527)
	+0.5%	(1,537)	2,170	528
Expected tariffs on future receipts	–2.0%	(511)	(3,172)	(643)
	+2.0%	8,374	3,572	2,003
Inflation of operating costs	+0.5%	(40,253)	(4,900)	7,023
	–0.5%	35,170	3,563	(6,136)
Discount rate	+0.5%	2,701	(2,058)	80
	–0.5%	(2,861)	2,180	(85)
VAT refund	Reduction of 30%	(13,013)	(5,952)	(3,184)

4.2 Useful lives of property, plant and equipment and intangible assets

The Group depreciates the property, plant and equipment, amortises the intangible assets in accordance with the accounting policies stated in notes 2.5 and 2.6 respectively. The estimated useful lives reflect the director's estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

4.3 Impairment of receivables

Provision for expected credit loss is made when the Group will not collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision reflects either 12-month expected credit losses, or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of debtors and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss. Key judgements on provisions made across businesses are disclosed in note 19.

4.4 Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

5 Revenue and segment information

Management has determined the operating segments based on the information reviewed by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of directors of TIL during the Track Record Period.

Operating segments are reported in the manner consistent with the internal reporting provided to the CODM. The Group is subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole. The Board of directors of TIL considers the performance assessment of the Group should be based on the profit before income tax of the Group as a whole and regards the Group as a single operating segment and reviews Historical Financial Information accordingly. Therefore, the Board of directors of TIL considers these to be only one operating segment under the requirements of HKFRS 8 "Operating Segments".

The Group provides wastewater treatment services in the PRC during the Track Record Period.

An analysis of the Group's revenue from contracts with customers is as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Wastewater treatment operation services	73,194	87,571	76,590
Recycle water supply operation services	6,299	5,189	5,428
Wastewater treatment construction services	91,243	32,647	197,249
Finance income from service concession arrangement	78,694	80,938	86,002
Management fees from a related company *(note 30(a))*	1,091	1,074	1,112
	250,521	207,419	366,381
Timing of revenue recognition			
At a point in time	6,299	5,189	5,428
Over time	165,528	121,292	274,951
	171,827	126,481	280,379
Finance income from service concession arrangement	78,694	80,938	86,002
	250,521	207,419	366,381

Segment assets and liabilities

No assets and liabilities are included in the Group's segment reporting that are submitted to and reviewed by the CODM internally. Accordingly, no segment assets and liabilities are presented.

Information about major customers

External customer contributes over 10% of total revenue of the Group for the years ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	243,131	201,156	359,841

Geographical information

During the Track Record Period, all of the revenue was from customers in the PRC.

In relation to non-current assets held by the Group (primarily represented by property, plant and equipment receivable under service concession arrangement, intangible asset and other non-current assets as detailed in notes 15, 16, 17 and 27), these are located in the PRC.

Contract assets and liabilities

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Contract assets — receivable under service concession arrangement *(note (i))*			
— Non-current	1,247	23,473	130,764
— Current	—	3,093	23,238
Contract assets — fulfilment cost for construction services — Current *(note (ii))*	—	5,698	11,837
Contract liabilities — advances from customers for wastewater treatment operation services — Current *(note (iii))*	2,216	9,607	7

Notes:

(i) Payment for wastewater treatment construction services is not due from the customer (i.e. as trade receivables) until the construction services are complete. As a result, a contract asset is recognised over the period in which the construction services are performed to represent the entity's right to consideration for the services transferred to date. Contract assets will be subsequently reclassified as trade receivables after the plant has commenced its operation and the rights to bill the customer has established. Contract assets — receivable under service concession arrangement has increased due to the construction cost incurred for the upgrade and expansion of wastewater facilities for Plant 1, Plant 2 and Plant 4.

(ii) The Group recognised a contract asset in relation to the fulfilment costs incurred for the construction services which represents advanced payments to subcontractors before the provision of their services. These costs will be amortised over the period in which the construction services are performed, consistent with the pattern of recognition of the wastewater treatment construction services revenue. Contract assets — fulfilment cost for construction services have increased due to the increase of payment to sub-contractors for the upgrade and expansion of wastewater facilities for Plant 1, Plant 2 and Plant 4.

There were no impairment losses recognised on any contract asset in the Track Record Period.

(iii) Revenue relating to wastewater treatment operation services is recognised over time although the customer pays upfront payment for these services. A contract liability is recognised for revenue relating to the wastewater treatment operation services at the time of the up-front payment and is released over the service period. The change in amount is due to more and lower up-front payment by the Grantor to the Group in 2016 and 2017 respectively. Wastewater treatment operation services revenue were and will be recognised during the years ended 31 December 2016, 2017 and year ending 31 December 2018.

Transaction price allocated to the remaining performance obligation

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the Track Record Period:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Wastewater treatment construction services	909,063	820,141	674,953
Wastewater treatment operation services	6,145,110	5,669,164	5,987,490

Management expects that the transaction price allocated to the unsatisfied performance obligation for wastewater treatment construction services as of 31 December 2015, 2016 and 2017 will be recognised as revenue during the years ending 31 December 2016 to 2020.

The transaction price allocated to the unsatisfied performance obligation for wastewater treatment operation services represents the expected future income generated over the Service Concession Periods including future guaranteed receipts and unguaranteed receipts. The amount as of 31 December 2015, 2016 and 2017 will be recognised as revenue over the remaining periods of the Service Concession Periods.

6 Other income

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Interest income	296	429	641
VAT refund *(note (a))*	1,970	1,795	1,944
Others	1,094	290	262
	3,360	2,514	2,847

(a) During the six months ended 30 June 2015, the Group was exempted from VAT according to Caishui [2008] No.156. Since 1 July 2015, 70% and 50% of the VAT paid by the Group in relation to the wastewater processing business and the sales of recycle water respectively were refunded according to Caishui [2015] No.78, and the Group was entitled to claim and have claimed from the Grantor the balance of the VAT payment under the TOT agreement. Hence the Group recognised these VAT refunds attributable to intangible assets as other income during the years ended 31 December 2015, 2016 and 2017 respectively.

7 Other gains/(losses), net

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Net gains on disposal of property, plant and equipment	52	118	7
Net gains on financial assets at fair value through profit or loss	1,401	1,540	913
Net foreign exchange gains/(losses)	1,917	(666)	(4,001)
Others	(12)	(10)	(2)
	3,358	982	(3,083)

8 Expenses by nature

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Employee benefit expenses *(note 9)*			
— Cost of sales	10,861	10,189	8,458
— General and administrative expenses	3,961	4,726	5,364
Depreciation of property, plant and equipment *(note 15)*	773	256	215
Amortisation of intangible assets *(note 17)*	1,874	1,954	2,008
Construction cost	82,949	29,679	179,317
Costs of wastewater treatment operation and recycle water supply operation services			
— Chemical	12,507	22,662	11,796
— Utility	17,437	19,080	18,607
— Others	7,702	8,168	10,766
Legal and professional fee	680	800	56
Consultancy fee to a related company *(note 30(a))*	635	393	—
Auditor's remuneration	260	256	251
Rental expenses	344	333	339
Travelling expenses	1,530	2,416	2,203
Repair and maintenance costs	2,580	3,142	2,451
Office expenses	571	505	651
Others	946	809	1,132
	145,610	105,368	243,614

9 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	10,267	10,386	10,158
Social security expenses	3,005	2,810	2,298
Other staff benefits and welfare	1,550	1,719	1,366
Total	14,822	14,915	13,822

These subsidiaries are required to contribute certain percentage of payroll costs as set by local municipal governments to each scheme locally to fund the retirement benefit scheme for the Track Record Period.

(a) Five highest paid individuals:

The five individuals during the Track Record Period whose emoluments were the highest in the Group include Nil, 1, 1 director for the years ended 31 December 2015, 2016 and 2017 respectively, whose emoluments are reflected in note 10. The emoluments payable to the remaining 5, 4, 4 individuals for the years ended 31 December 2015, 2016 and 2017 respectively, are as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	1,146	1,418	1,854
Social security expenses	261	162	181
Total	1,407	1,580	2,035

The emoluments of the remaining non-directors individuals fell within the following bands:

	Number of individuals		
	Year ended 31 December		
	2015	**2016**	**2017**
Emolument bands			
Nil to HK$1,000,000	5	4	4

10 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' emoluments

The emoluments paid or payable to the directors of the Group are as follows:

Year ended 31 December 2015

Name	Fees	Salary *(note 1)*	Discretionary bonuses *(note 3)*	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note 2)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note 3)*	—	—	—	—	—	—	—
Executive director							
Mr. Wong Kok Sun *(note 4)*	—	148	25	211	—	—	384
Total	—	148	25	211	—	—	384

Year ended 31 December 2016

Name	Fees	Salary *(note 1)*	Discretionary bonuses *(note 3)*	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note 2)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note 3)*	—	—	—	—	—	—	—
Executive director							
Mr. Wong Kok Sun *(note 4)*	—	559	—	220	—	—	779
Total	—	559	—	220	—	—	779

Year ended 31 December 2017

Name	Fees	Salary *(note 1)*	Discretionary bonuses *(note 3)*	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiaries undertaking *(note 2)*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman, non-executive director							
Mr. CS Lim *(note 3)*	—	—	—	—	—	—	—
Executive directors							
Mr. Wong Kok Sun *(note 4)*	—	982	164	258	—	—	1,404
Total	—	982	164	258	—	—	1,404

Notes:

(1) Salary paid to a director is generally an emolument paid or receivable in respect of that person's other services in connection with the management of the affairs of the Company or its subsidiaries undertakings.

(2) Discretionary bonuses are determined based on the financial performance of the Group and the performance of each individual.

(3) During the Track Record Period, Mr. CS Lim received emoluments from the ultimate holding company, part of which is in respect of his services to the Group. No apportionment of such emoluments has been made as it is considered that it is impracticable to apportion the amounts between the services to the Group and the services to the ultimate holding company.

(4) During the Track Record Period, the payments made to Mr. Wong Kok Sun were paid in respect to his capacity as chief executive officer. He is appointed as executive director of the Company on 11 May 2018.

(b) Directors' retirement and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the Track Record Period.

(c) Consideration provided to third parties for making available directors' services

The Group did not pay consideration to any third parties for making available directors' services during the Track Record Period.

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled body corporate by and connected entities with such directors during the Track Record Period.

(e) Directors' material interests in transactions, arrangements or contracts

Save as those disclosed in note 30, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the Track Record Period.

11 Finance costs

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Interest expenses on borrowings	50,169	42,024	41,299
Interest expenses on loans from TCB and LGB (HK) *(note 30(a))*	806	809	809
	50,975	42,833	42,108
Less: interest expenses capitalised as intangible assets	(140)	(15)	(136)
Finance costs	50,835	42,818	41,972

Finance costs have been capitalised at average interest rate of 0.02%, 0.002% and 0.02% per annum for the years ended 31 December 2015, 2016 and 2017 respectively.

12 Income tax expense

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Deferred income tax *(note 26)*	15,741	17,174	21,659

Hong Kong profits tax has not been provided as the Group had no estimated assessable profit for the Track Record Period. Taxation on Mainland China profits has been calculated on the estimated taxable profits at the rate of 25%.

According to applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong and meets the conditions or requirements under the double taxation arrangement entered into between the Mainland China and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits/losses of the group entities as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	60,794	62,729	80,559
Taxation at an applicable rate of 25%	15,199	15,682	20,140
Difference arising from different tax jurisdiction	(94)	153	525
Incomes not subject to income tax	(266)	(57)	(1)
Expenses not deductible for tax purposes	399	642	990
Tax losses not recognised	530	754	43
Other	(27)	—	(38)
Income tax expense	15,741	17,174	21,659

13 Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganisation and the preparation of the results for each of the years ended 31 December 2015, 2016 and 2017 on a combined basis as disclosed in note 1.3 above.

14 Dividends

No dividend has been paid or declared by the Company since its incorporation.

15 Property, plant and equipment

	Furniture, fixture and equipment *HK$'000*	Motor vehicles *HK$'000*	Computer equipment *HK$'000*	Total *HK$'000*
Net book value				
At 1 January 2015	1,103	874	36	2,013
Additions	11	—	4	15
Depreciation	(659)	(100)	(14)	(773)
Disposals	(1)	—	—	(1)
Currency translation differences	(25)	(37)	(1)	(63)
At 1 January 2016	429	737	25	1,191
Additions	209	—	31	240
Depreciation	(173)	(74)	(9)	(256)
Disposals	(1)	—	(7)	(8)
Currency translation differences	(32)	(44)	(2)	(78)
At 1 January 2017	432	619	38	1,089
Additions	730	—	6	736
Depreciation	(128)	(75)	(12)	(215)
Disposals	(1)	—	—	(1)
Currency translation differences	46	43	2	91
At 31 December 2017	1,079	587	34	1,700
At 1 January 2015				
Cost	2,788	1,609	295	4,692
Accumulated depreciation	(1,685)	(735)	(259)	(2,679)
Net book value	1,103	874	36	2,013
At 31 December 2015				
Cost	2,863	1,537	286	4,686
Accumulated depreciation	(2,434)	(800)	(261)	(3,495)
Net book value	429	737	25	1,191
At 31 December 2016				
Cost	2,874	1,439	229	4,542
Accumulated depreciation	(2,442)	(820)	(191)	(3,453)
Net book value	432	619	38	1,089
At 31 December 2017				
Cost	3,810	1,540	251	5,601
Accumulated depreciation	(2,731)	(953)	(217)	(3,901)
Net book value	1,079	587	34	1,700

16 Receivable under service concession arrangement

The Group has entered into a services concession arrangement with a government authority in the PRC under a TOT model in respect of its wastewater treatment services based on the TOT Agreement dated September 2011 (the "**Service Concession Agreement**"). This service concession arrangement involves the Group as an operator (i) paying a specific amount for the wastewater treatment plants (collectively, the "**Facilities**") for an arrangement under a TOT model; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authority for 30 years from 21 September 2011, and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism as defined in the Service Concession Agreement.

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

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

As further explained in the accounting policy for "Service concession arrangement" set out in note 2.7 to the Historical Financial Information, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (service concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The service concession arrangement with the government authority is recognised as a combination of financial asset and intangible asset since the project had an unconditional contractual right to receive cash from the government authority based on the guaranteed wastewater treatment volume, and a right to charge the government authority on the additional wastewater treatment volume.

The following is the summarised information of the financial asset component (receivable under a service concession arrangement) with respect to the Group's service concession arrangement:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Receivable under service concession arrangement			
— Current	114,686	236,388	251,359
— Non-current	1,111,732	986,953	1,153,512
	1,226,418	1,223,341	1,404,871

The collection of receivables under the service concession arrangement is closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under the service arrangement are future billable receivables. They were mainly due from a governmental authority in the PRC, as the Grantor in respect of the Group's service concession arrangement. All of these financial assets are considered to have low credit risk as they have a low risk of default and the counterparty has strong capability to meet its contractual cash flow obligations in the near term. Therefore, impairment provision was limited to 12 months expected losses and estimated to be minimal.

17 Intangible assets

	Service concession right *HK$'000*	Computer softwares *HK$'000*	Total *HK$'000*
Net book value			
At 1 January 2015	50,614	10	50,624
Additions	4,818	—	4,818
Amortisation	(1,869)	(5)	(1,874)
Currency translation differences	(2,372)	—	(2,372)
At 1 January 2016	51,191	5	51,196
Additions	1,688	—	1,688
Amortisation	(1,950)	(4)	(1,954)
Currency translation differences	(3,248)	—	(3,248)
At 1 January 2017	47,681	1	47,682
Additions	10,247	—	10,247
Amortisation	(2,008)	—	(2,008)
Currency translation differences	3,575	—	3,575
At 31 December 2017	59,495	1	59,496
At 1 January 2015			
Cost	52,350	23	52,373
Accumulated amortisation	(1,736)	(13)	(1,749)
Net book value	50,614	10	50,624
At 31 December 2015			
Cost	52,983	22	53,005
Accumulated amortisation	(1,792)	(17)	(1,809)
Net book value	51,191	5	51,196
At 31 December 2016			
Cost	49,530	20	49,550
Accumulated amortisation	(1,849)	(19)	(1,868)
Net book value	47,681	1	47,682
At 31 December 2017			
Cost	61,537	22	61,559
Accumulated amortisation	(2,042)	(21)	(2,063)
Net book value	59,495	1	59,496

Amortisation was charged to cost of sales during the years ended 31 December 2015, 2016 and 2017.

18 Inventories

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Consumables — chemicals	440	269	364

No provision was made by the Group on inventories during the Track Record Period.

The cost of inventories recognised as expenses and included in cost of sales amounted to approximately HK$12,507,000, HK$22,661,000 and HK$11,795,000 for the years ended 31 December 2015, 2016 and 2017 respectively.

19 Trade and other receivables

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	816	902	17,168
Other receivables	2,427	1,891	5,305
Prepayment	2,305	2,470	1,816
Fulfilment cost for construction services	–	5,698	11,837
	5,548	10,961	36,126

Expected credit losses

The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. The expected credit loss is minimal as the majority of the trade and other receivables are due from governmental authorities in the PRC which has no recent history of default.

In general, the Group grants credit periods of within 5–20 days to its customers. Aging analysis of gross trade receivables at the respective reporting dates, based on the invoice dates are as follows:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	816	504	17,147
31–60 days	—	392	19
61–90 days	—	5	—
Over 90 days	—	1	2
	816	902	17,168

The trade and other receivables are measured at amortised cost. The carrying amount of trade and other receivables approximates their fair values and are mainly denominated in RMB.

The maximum exposure to credit risk at each reporting date is the carrying value of trade and other receivables.

20 Cash and bank balances

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Non-current			
Restricted bank balances *(Note (i))*	4,776	4,472	4,785
Current			
Restricted bank balances *(Note (ii))*	—	—	6,580
Cash and cash equivalents	37,972	80,214	130,141
	42,748	84,686	141,506

All the cash and bank balances are denominated in RMB, US$, HK$ and Singapore dollars.

The conversion of RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

Note (i): Amount represented bank balances held at bank for guarantee for service concession arrangement. Such bank balances will be released after the expiry of the service concession arrangement.

Note (ii): Amount represented the restricted bank balances for the note payables (note 24).

21 Share capital

Share capital during the Track Record Period represents the share capital of TIL.

22 Reserves

	Exchange reserves
	HK$'000
At 1 January 2015	14,448
Currency translation differences	(26,661)
At 31 December 2015	(12,213)
Currency translation differences	(38,051)
At 31 December 2016	(50,264)
Currency translation differences	42,494
At 31 December 2017	(7,770)

23 Borrowings

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Non-current			
Long-term borrowings — secured	700,645	673,939	700,356
Current			
Current portion of long-term borrowings — secured	17,479	26,640	48,960
Short-term borrowings — unsecured	16,716	13,974	19,141
	734,840	714,553	768,457

The annual interest rates at the reporting date are as follows:

	As at 31 December		
	2015	**2016**	**2017**
Short-term borrowings	5.58%–7.03%	5.00%–6.44%	5.00%
Long-term borrowings	5.49%–7.21%	5.39%–6.49%	5.39%–5.90%

The Group's bank borrowings were repayable as follows:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	34,195	40,614	68,101
Between 1 and 2 years	28,114	45,116	58,431
Between 2 and 5 years	160,580	185,389	230,982
Over 5 years	511,951	443,434	410,943
	734,840	714,553	768,457

The Group's long-term borrowings as at 31 December 2015, 2016 and 2017 were secured by contractual rights to receive revenue generated by the Group and the land use right granted by the government in relation to parcel of land of which the wastewater treatment plants are situated. All bank borrowings are measured at amortised cost. The balances approximate their fair values and are denominated in RMB.

24 Trade and other payables

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	30,763	31,750	89,838
Advances from customers	3,603	20,182	12
Retention payables	6,733	6,443	8,608
Note payables	—	—	6,580
Other payables and accruals	32,445	27,586	29,024
	73,544	85,961	134,062

All the trade and other payables are measured at amortised cost and denominated in RMB and HK$.

The aging analysis of trade payables based on invoices dates is as follows:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
1–30 days	13,449	4,422	26,364
31–60 days	1,671	4,090	39,257
61–90 days	1,637	1,806	2,226
Over 90 days	14,006	21,432	21,991
	30,763	31,750	89,838

25 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are unlisted debt instrument denominated in RMB. The unlisted debt instrument mainly represent principal-protected investments which has minimal risk. The balances carry expected return of 2.1% to 3.6% per annum and have no fixed maturity, except for the amount of HK$35,889,000 as of 31 December 2017 which has expected annual return of 1.0% to 3.7% and will mature in twelve months after the end of the reporting period.

Financial assets at fair value through profit or loss are presented within "investing activities" as part of cash flow from investing activities in the combined statement of cash flows. Changes in fair values of financial assets at fair value through profit or loss are recorded in "Other gains/(losses), net" in the combined income statements.

26 Deferred tax assets/liabilities

Deferred tax assets and liabilities are calculated on temporary differences under the liability method using applicable taxation rates in the tax jurisdictions of the relevant entities.

The movements in deferred tax assets and liabilities during the year, without taking into accounts for the offsetting of the balances within the same tax jurisdiction, are as follows:

(a) Deferred tax assets

	Tax losses
	HK$'000
At 1 January 2015	26,383
Credited to profit or loss	1,197
Currency translation differences	(1,229)
At 31 December 2015	26,351
Charged to profit or loss	(3,793)
Currency translation differences	(1,519)
At 31 December 2016	21,039
Charged to profit or loss	(9,007)
Currency translation differences	1,227
At 31 December 2017	13,259

(b) Deferred tax liabilities

	Temporary differences on assets recognised under HK(IFRIC) — Int 12
	HK$'000
At 1 January 2015	63,207
Charged to profit or loss	16,938
Currency translation differences	(3,381)
At 31 December 2015	76,764
Charged to profit or loss	13,381
Currency translation differences	(5,457)
At 31 December 2016	84,688
Charged to profit or loss	12,652
Currency translation differences	6,290
At 31 December 2017	103,630

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax assets			
— Recoverable more than twelve months	3,793	9,007	—
— Recoverable within twelve months	22,558	12,032	13,259
	26,351	21,039	13,259

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax liabilities			
— Payable or settle more than twelve months	76,764	84,688	103,630

As at 31 December 2015, 2016 and 2017, the Group has unrecognised tax losses of approximately HK$15,985,000, HK$16,097,000 and HK$16,303,000 to carry forward against future taxable income. As at 31 December 2015, 2016 and 2017, the aggregate amount of unrecognised deferred tax liabilities associated with undistributed earnings in a subsidiary and the total undistributed earnings are approximately HK$151,807,000, HK$202,063,000 and HK$267,039,000 respectively, as the directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
With no expiry date	2,985	3,144	4,601
Expiring no later than one year	—	1,965	438
Expiring later than one year and no later than five years	13,000	10,988	11,264
	15,985	16,097	16,303

27 Material non-controlling interests

The subsidiary with a material non-controlling interests is TECO. TECO and its subsidiary held an other non-current asset, and remained inactive throughout the Track Record Period. The other non-current asset represents the cost incurred for the construction of a wastewater treatment plant of TECO's subsidiary that has ceased to be viable. The plant was transferred back to government and the cost incurred would be recoverable from the government.

Summarised financial information on subsidiary with material non-controlling interests

Summarised statements of financial position

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	47,624	44,575	47,907
Total liabilities	(87,925)	(86,724)	(90,738)
	(40,301)	(42,149)	(42,831)

Summarised income statements

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Loss after tax	(1,804)	(2,200)	(52)
Other comprehensive income	(560)	463	(803)

Summarised statements of cash flows

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Net (decrease)/increase in cash and cash equivalents	(11)	42	12

The information above represents the amount before inter-company eliminations.

28 Notes to combined statements of cash flows

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Profit before income tax	60,794	62,729	80,559
Adjustments for:			
Depreciation and amortisation	2,647	2,210	2,223
Finance income	(296)	(429)	(641)
Finance costs	50,975	42,833	42,108
Profit from wastewater treatment construction services	(8,295)	(2,968)	(17,932)
Fair value gain on the financial assets at fair value through profit or loss	(1,401)	(1,540)	(913)
Net gain on disposal of property, plant and equipment	(52)	(118)	(7)
Unrealised exchange differences	(904)	409	2,943
Operating profit before working capital changes	103,468	103,126	108,340
(Increase)/decrease in inventories	(211)	171	(95)
Decrease/(increase) in trade and other receivables	16,723	(4,214)	(24,488)
Increase in receivable under service concession arrangement	(96,533)	(77,120)	(85,474)
(Increase)/decrease in amounts due from fellow subsidiaries	(3,990)	476	(2,650)
Increase in restricted bank balances	—	—	(6,580)
Increase in trade and other payables	30,022	18,989	45,292
(Decrease)/increase in balances with other related companies	(4)	6	133
(Decrease)/increase in amounts due to fellow subsidiaries	(829)	(388)	1,231
Cash generated from operations	48,646	41,046	35,709

(b) Reconciliation of liabilities arising from financing activities

This section sets out an analysis of liabilities arising from financing activities and the movements for each of the years presented.

	Amount due to TCB	**Amount due to LGB (HK)**	**Short-term borrowings**	**Long-term borrowings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	533,355	—	22,509	686,801	1,242,665
Cash flows	3,150	—	(4,928)	64,349	62,571
Unrealised exchange differences	(2,023)	—	—	—	(2,023)
Currency translation differences	—	—	(865)	(33,026)	(33,891)
At 31 December 2015	534,482	—	16,716	718,124	1,269,322
Cash flows	—	856	(1,751)	29,469	28,574
Assignment of debt *(note 31(c))*	(534,482)	534,482	—	—	—
Unrealised exchange differences	—	(177)	—	—	(177)
Currency translation differences	—	—	(991)	(47,014)	(48,005)
At 31 December 2016	—	535,161	13,974	700,579	1,249,714
Cash flows	—	55,397	4,074	(384)	59,087
Unrealised exchange differences	—	5,181	—	—	5,181
Currency translation differences	—	—	1,093	49,122	50,215
At 31 December 2017	—	595,739	19,141	749,317	1,364,197

29 Commitments

(a) Capital commitments

As at 31 December 2015, 2016 and 2017, the Group has the following capital commitments in respect of upgrade and expansion of the wastewater treatment plants under development:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Contracted but not provided for	76,047	18,229	200,530

The above commitments are in relation to service concession arrangement which will be classified as receivable under service concession arrangement or intangible asset.

(b) Lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	762	837	717
One to two years	—	122	30
	762	959	747

30 Related party transactions

Except as disclosed elsewhere in the Historical Financial Information, management is of the view that the following entities/persons are related parties of the Company and had transactions with the Group during the Track Record Period.

Name	**Relationship**
Taliworks Corporation Berhad	Immediate holding company prior to May 2016, and a related company since then
LGB (Malaysia) Sdn Bhd	Ultimate holding company
LGB Group (HK) Limited	Intermediate holding company since May 2016
Tianjin-SWM (M) Environment Ltd, Co.	Fellow subsidiary

(a) In addition to the transactions and balances disclosed elsewhere in these combined Historical financial Information, the Group had the following material related party transactions:

	Year ended 31 December		
	2015	**2016**	**2017**
	HK$'000	*HK$'000*	*HK$'000*
Management fees income from Tianjin-SWM (M) Environment Ltd., Co. *(note)*	1,091	1,074	1,112
Interest expenses to TCB	370	—	—
Interest expenses to LGB (HK)	436	809	809
Consultancy fee expenses to TCB	635	393	—

Management fees, interest expenses and consultancy fee are charged in accordance with the terms of respective agreements.

Note: Management fees income have ceased prior to [REDACTED].

(b) The balances are measured at amortised cost, unsecured, interest free, and have no fixed terms of repayment. The amounts due from/(to) fellow subsidiaries will be settled before [REDACTED].

Amounts due from fellow subsidiaries

	Year ended 31 December		
	2015	**2016**	**2017**
Currency	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	12,869	11,893	15,862
Hong Kong dollars	2,100	2,100	2,100
Total	14,969	13,993	17,962

Amounts due to fellow subsidiaries

	Year ended 31 December		
	2015	**2016**	**2017**
Currency	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi	4,771	4,467	4,780

(c) On 17 May 2016, LGB (HK) as purchaser and TCB, as vendor entered into sales and purchase agreement, pursuant to which TCB agreed to sell, and LGB (HK) agreed to purchase, the entire equity interest in TIL. Pursuant to the transaction, all the outstanding balances by TIL to TCB was assigned to LGB (HK).

The balances are measured at amortised cost, unsecured and have no fixed terms of repayment. Except for the amount of US$1,600,000 (equivalent to HK$12,402,000), US$1,600,000 (equivalent to HK$12,410,000) and US$1,600,000 (equivalent to HK$12,502,000) carrying interest at 6.5% per annum as of 31 December 2015, 2016 and 2017 respectively, the remaining balance is interest-free.

	Year ended 31 December		
	2015	**2016**	**2017**
Currency	*HK$'000*	*HK$'000*	*HK$'000*
United States dollars	507,612	508,752	564,358
Renminbi	17,108	16,086	19,989
Malaysian Ringgit	3,506	4,320	4,716
Singapore dollars	6,256	6,003	6,676
Total	534,482	535,161	595,739

31 Subsequent events

The following events occurred subsequent to 31 December 2017 and up to the date of this report:

(a) Subsequent to 31 December 2017, the Group underwent a reorganisation in preparation for the proposed [REDACTED], including the disposal of TECO to LGB (HK). The financial information of TECO and its subsidiary is disclosed in note 27. Details of the Reorganisation are set out in note 1 above.

(b) On [●], LGB (HK), Sparkle Century and the Company entered into a deed of loan assignment pursuant to which LGB (HK) assigned the loan due from our Company to LGB (HK) ("**LGB HK Shareholder Loan**") to Sparkle Century, in consideration of Sparkle Century undertaking to repay a sum with the same amount and under the same terms as the above LGB HK Shareholder Loan to LGB (HK). After execution of the loan assignment, the Company was indebted to Sparkle Century for the sum of approximately HK$[REDACTED], while Sparkle Century was indebted to LGB (HK) for the sum of approximately HK$[REDACTED]. On the same day, Sparkle Century capitalised the shareholder's loan owed by the Company to it of HK$[REDACTED], in consideration of the Company issuing and allotment [REDACTED] new shares to Sparkle Century. After the capitalisation, the Company remained to be wholly-owned by Sparkle Century.

(c) By a shareholders' resolution dated [●] and conditional upon the share premium amount of the Company being credited as a result of the proposed [REDACTED] of the Company's shares, the Company will issue additional [REDACTED] shares, credited as fully paid, to the existing shareholders of the Company.

III HISTORICAL FINANCIAL INFORMATION OF THE COMPANY

As at 31 December 2017, the Company had not been incorporated. Accordingly, it had no assets, liabilities or reserve as at that date.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2017 and up to the date of this report. No dividend or distribution has been declared, made or paid by the Company or any of the other companies now comprising the Group in respect of any period subsequent to 31 December 2017.