DCWT 滇池水务
KUNMING DIANCHI WATER TREATMENT CO.,LTD

2018 ANNUAL REPORT

昆明滇池水務股份有限公司
Kunming Dianchi Water Treatment Co., Ltd.

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 3768

臻於至善　源遠流長
CONSUMMATION & SUSTAINABILITY

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CHAPTER ONE

CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY
昆明滇池水務股份有限公司

ENGLISH NAME OF THE COMPANY
Kunming Dianchi Water Treatment Co., Ltd.

REGISTERED OFFICE AND HEADQUARTERS IN THE PRC
Wastewater Treatment Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

WEBSITE OF THE COMPANY
www.kmdcwt.com

STOCK CODE
03768

LEGAL REPRESENTATIVE OF THE COMPANY
Ms. Guo Yumei

AUTHORIZED REPRESENTATIVES
Mr. Chiu Ming King FCIS, FCS
Mr. Luo Yun

JOINT COMPANY SECRETARIES
Mr. Yang Yang
Mr. Chiu Ming King FCIS, FCS

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

HONG KONG LEGAL ADVISER TO THE COMPANY
Latham & Watkins LLP
18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRC LEGAL ADVISER TO THE COMPANY
Yunnan Beichuan Law Firm
Room 101, Unit 1, Building 204
Jinxing District
Panlong District
Kunming, Yunnan Province
PRC

H SHARE REGISTRAR
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

BOARD OF DIRECTORS

Executive Directors
Ms. Guo Yumei *(Chairperson)*
Mr. Luo Yun

Non-executive Directors
Ms. Ma Ce
Ms. Song Hong

Independent Non-executive Directors
Mr. Yin Xiaobing
Mr. He Xifeng
Mr. Sin Lik Man

BOARD COMMITTEES

Audit Committee
Mr. Yin Xiaobing *(Chairperson)*
Mr. He Xifeng
Mr. Sin Lik Man

Remuneration and Appraisal Committee
Mr. He Xifeng *(Chairperson)*
Ms. Guo Yumei
Mr. Yin Xiaobing

Nomination Committee
Mr. Yin Xiaobing *(Chairperson)*
Ms. Guo Yumei
Mr. He Xifeng

Strategy and Investment Decision Committee
Ms. Guo Yumei *(Chairperson)*
Mr. Luo Yun
Mr. Yin Xiaobing

BOARD OF SUPERVISORS
Mr. Na Zhiqiang *(Chairperson)*
Mr. Yao Jianhua
Mr. Shao Wei

PRINCIPAL BANKS

China Everbright Bank
Kunming Dianchi Road Sub-branch
Project & Design Unit Building
No. 1177 Dianchi Road
Xishan District, Kunming
Yunnan Province
PRC

China Minsheng Bank
Kunming Dianchi Road Sub-branch
No. 331 Huancheng South Road
Kunming
Yunnan Province
PRC

Ping An Bank
Kunming Chuncheng Sub-branch
1st Floor, Baifuqi Commercial Plaza
No. 32 Wujing Road
Guandu District, Kunming
Yunnan Province
PRC

Bank of Communications
Yunnan Branch
1st Floor Counter
Bank of Communications Building
No. 397 Baita Road
Panlong District, Kunming
Yunnan Province
PRC

China Merchants Bank
Kunming Shijicheng Sub-branch
1A and 1B, 1st Floor
Century Golden Recourses
International Business Center Tower 2
Kunming
Yunnan Province
PRC

In 2018, macroeconomic situation was severe and downward pressure on the economy increased. The environmental protection industry experienced a double-pressure test of financial and environmental protection regulation. In the previous year, Kunming Dianchi Water Treatment Co., Ltd. (the "Company" or "Dianchi Water") began the new journey of "new undertakings" with standardized management as the starting point. Facing complex and ever-changing international and domestic market environment, new changes in the industry, the Company accurately grasped national strategies and new environmental protection policies and identified the juncture of macroeconomic policies and ecological environmental protection policies to clarify work ideas and mission objectives and explore financing potential of international capital markets. The Company also made use of the advantages of international and domestic dual financing platforms, actively expanded financing channels and developed a portfolio of stock assets revitalization, quality assets diversification and optimization of investment structure to form a benign pattern of mutual promotion of financing and investment and symbiotic coexistence. The Company commenced a new situation for healthy development of the Company in the new era of being listed and maintained a steady growth in revenue and profit, thereby winning recognition and affirmation from the capital market and all walks of life.

PERFORMANCE REVIEW:

In 2018, the Company's revenue was approximately RMB1,430 million, representing an increase of 16.8% over 2017. The net profit attributable to shareholders of the Company was approximately RMB349 million, representing an increase of 11.6% over 2017.

In terms of main business, the Company's total volume of wastewater treatment in 2018 created a new record high. The Company successfully completed pollutant emission reduction tasks issued by the local government. Wastewater treatment operation management continues to maintain industry advance and leading level in Yunnan province. The effluent quality of the water purification plants of Kunming City and the lakes of Kunming City is superior to the first-class A standard, which is the highest in the industry. The comparable average power consumption per ton of water is lower than the industry average. Revenue and profit of reclaimed water business and running water business also maintain steady growth.

In terms of technological innovation, the Company's technological research and development system has been substantially established. Technological innovation has been promoted in depth and blossoming with significant benefits. Each production unit has improvement in technological innovation awareness and quality, from minor reforms and small-scale equipment transformation in the past to upgrading of utilizing systematic thinking and systematic analysis methods to conduct process analysis and achieve precise control and overall process optimization. Benefited by technological innovation as well as transformation and application of results, the Company saved nearly twice of the direct production costs compared to the previous year which improved its service capacity for ecological civilization construction in its business area.

In terms of investment and financing, under the background of "strict supervision" and tight capital source in the domestic financial market, the Company continuously optimized capital structure, fully exploited capital market resources and broadened domestic and overseas financing channels to successfully build a domestic and overseas financing "dual platform" and exert stronger financing advantages. Moreover, by strengthening collection of account receivables, strictly controlling production cost expenditure, strengthening budget management and improving capital utilization, the Company further strengthened financial management control and effectively responded to fluctuation of market liquidity risk.

In accordance with the principles of steady progress and prudent investment, the Company continued to seize development opportunities as well as accelerate endogenous growth and extensive expansion to excavate market potential of industry synergy, so that a layout of the entire water treatment industry chain could be substantially formed, extending from municipal sewage treatment to other business areas such as rural micro-polluted water and industrial wastewater, upstream water source protection, running water supply, downstream reclaimed water use, sludge disposal, derived solid waste industry and thermal power supply. Various market projects which effectively improved residents' ecological environment in the service areas had been unanimously affirmed and praised by the local governments and the population. The professional capabilities and corporate image of the Company can also be showcased in an all-round manner.

PROSPECTS:

2019 is a crucial year to implement national economic and social development of the 13th Five-Year Plan of the PRC and to win the battle against pollution. Local governments at all levels have high demand for environmental protection and extensive market potential due to macroeconomic policies. For Dianchi Water Treatment, it is a critical year for the Company to take advantage of the capital, technology and talents of regional leading enterprises of the industry to seize policy opportunities, expand market share and consolidate foundation for development, thereby amplifying developmental benefits.

In 2019, there are still a number of uncertainties in the economy all over the world, which is a crucial stage of transformational development for the environmental protection industry. The Company will accurately grasp new changes in policies, economy and market environment and focus on transformational development and risk prevention. Through policy-driven, market-driven and innovation-driven measures, the Company will promote innovation and deepen business management, investment and financing, project construction and other areas, so that innovative incentives will be accelerated and vitality of "micro-cell innovation" will be stimulated. The Company will also adjust investment strategies, optimize investment structure and breakthrough investment bottlenecks to seize market opportunities and realize rapid investment growth. The Company will strengthen financial management control, strengthen account receivables' management, strictly prevent various risks and speed up standardization management system to advance in depth. Management will also be held accountable. Through consolidating the main business of sewage treatment and accelerating transformation and application of technological innovation achievements, compliance with environmental protection regulatory requirements and the ability to serve the ecological civilization construction of business areas in various markets will be ensured.

We firmly believe that with the joint support of the majority of shareholders and investors and the close cooperation of all partners, the Company will be able to achieve even better performance, create better returns for shareholders and obtain better market reputation.

Last but not least, we would like to take this opportunity to express sincere gratitude to the Company's management and all employees for their hard works and prominent contributions. We would also like to extend our most heartfelt thanks to all our shareholders, investors, partners, and friends from various sectors of the society for their great and continuous support.

Guo Yumei
Chairperson

"Board" or "Board of Directors"	the Board of Directors of the Company
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Company" or "Issuer"	Kunming Dianchi Water Treatment Co., Ltd.* (昆明滇池水務股份有限公司), a joint stock company established in Yunnan Province, the PRC with limited liability on 23 December 2010 in accordance with PRC laws, and, if the context requires, including its predecessors and subsidiaries
"Controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules and refers to Kunming Dianchi Investment Co. Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004
"Debei'ao Water"	Leshan Debei'ao Water Limited* (樂山德貝奧水務有限公司), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company
"Dianchi Water (Laos)"	Dianchi Water (Laos) Sole Proprietorship Co., Ltd.* (滇池水務(老撾)獨資有限公司), a subsidiary directly owned by the Company
"Director(s)"	director(s) of the Company
"Domestic Shares"	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"Dongda Water"	Zhuji Dongdaciwu Wastewater Co., Ltd.* (諸暨市東大次塢污水處理有限公司), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company
"Group", "we", "us" or "our" or "our Group"	the Company and its subsidiaries
"H Share"	overseas listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange

"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hongyu Thermal Power"	Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽市宏宇熱電有限公司), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company
"Hongyu Water"	Liuyang Hongyu Water Treatment Co., Ltd.* (瀏陽市宏宇水務有限公司, currently known as Liuyang Dianchi Water Treatment Co., Ltd.* (瀏陽滇池水務有限公司)), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company
"Kunming Dianchi Investment"	Kunming Dianchi Investment Co., Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004, which is the Controlling Shareholder of the Company
"Kunming DIG"	Kunming Development Investment Group Co., Ltd.* (昆明發展投資集團有限公司), a company with limited liability incorporated in the PRC on 27 January 2010, which is a shareholder of the Company
"Kunming SASAC"	the State-owned Assets Supervision and Administration Commission of the Kunming People's Government (昆明市人民政府國有資產監督管理委員會), a government agency that performs investor's responsibilities, supervises and manages the state-owned assets of the enterprises under the supervision of the Kunming municipal government (excluding financial enterprises), shoulders the responsibility of supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, and is responsible for drafting local laws and regulations on the management of the state-owned assets
"Latest Practicable Date"	17 April 2019, being the latest practicable date for the inclusion of certain information and data in this annual report prior to its publication

"Listing"	Listing of the H Shares on the Hong Kong Stock Exchange
"Listing Date"	the date, being 6 April 2017, on which the Company's H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Non-competition Agreement"	the non-competition agreement entered into between the Controlling Shareholder and the Company dated 25 April 2016
"Prospectus"	the prospectus of the Company dated 24 March 2017 in relation to the initial public offering and the Listing of H Shares on the Stock Exchange
"RMB" or "Renminbi"	the lawful currency of the PRC
"Reporting Period"	the year of 2018 (1 January 2018 to 31 December 2018)
"Shareholder(s)"	holder(s) of the shares of the Company
"Yunnan Reclaimed Water"	Yunnan Reclaimed Water Industry Co., Ltd.* (雲南中水工業有限公司), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company
"Zhuji Environmental Protection"	Zhuji Hongyu Environmental Protection Equipment Co., Ltd.* (諸暨宏宇環保設備有限公司), a limited liability company incorporated in the PRC

* *For identification purposes only*

GLOSSARY OF TECHNICAL TERMS

“BOO”	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
“BOT”	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
“BT”	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
“CAGR”	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year
“pre-trial operation”	a stage in the project construction process as prescribed by the PRC government in accordance with the Provisions on Municipal Projects Design Budget Estimate Making, Jian Biao [2011] No. 1) issued by the Ministry of Housing and Urban-Rural Development where a facility under construction is tested for its operational functionality and further developed to qualify for regulatory approvals and enter commercial operation

"COD"	Chemical Oxygen Demand, the corresponding mass concentration of oxygen for the amount of oxidant consumed when strong oxidant is used to deal with a given water sample and is measured with mg/L. It has different ways according to the oxidizing agent, such as potassium permanganate (expressed as COD, also known as CODmn) and potassium dichromate (expressed as CODcr)
"TOO"	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns according to the concession agreement entered into by the enterprise and the government
"TOT"	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"utilization rate"	the actual volume of water supplied, or wastewater treated divided by the designed volume of water supplied or wastewater treated for a given period
"wastewater treatment"	use of physical, chemical and biological methods to remove pollutants from wastewater or to turn pollutants into innoxious substances before discharging it into a water body or reclaiming it for reuse

CHAPTER FIVE

SUMMARY OF OPERATING AND FINANCIAL DATA

The following table sets out our key operating and financial data for the periods or as of the dates indicated:

SUMMARY OF OPERATING DATA

	As at 31 December				
	2018	2017	2016	2015	2014
Capacity *('000 m^3 per day)*					
Wastewater treatment	**1,827**	1,807	1,544	1,165	1,127
Reclaimed water supply	**52**	52	44	44	32
Running water supply	**116**	64	56	46	–

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Volume *('000 m^3 per period indicated)*					
Wastewater treatment	**616,844**	550,872	517,911	454,159	423,420
Reclaimed water supply	**8,825**	6,883	5,846	5,790	5,146
Running water supply	**12,957**	8,998	4,749	1,627	–

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Utilization Rate					
Wastewater treatment	**92.9%**	93.9%	92.8%	109.4%	103.7%
Reclaimed water supply	**46.5%**	36.3%	36.3%	36.1%	44.1%
Running water supply	**30.6%**	38.5%	26.7%	23.1%	–

SUMMARY OF CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets	5,184,642	4,233,686	3,824,035	3,564,803	2,609,204
Current assets	2,257,421	1,791,125	779,456	1,296,136	1,161,413
Total assets	7,442,063	6,024,811	4,603,491	4,860,939	3,770,617
EQUITY					
Total equity	3,900,921	3,706,201	2,499,410	2,219,315	2,328,486
LIABILITY					
Non-current liabilities	2,050,603	1,288,952	858,437	1,286,476	333,842
Current liabilities	1,490,539	1,029,658	1,245,644	1,355,148	1,108,289
Total liabilities	3,541,142	2,318,610	2,104,081	2,641,624	1,442,131
Total equity and liabilities	7,442,063	6,024,811	4,603,491	4,860,939	3,770,617
Net current (liabilities)/assets	766,882	761,467	(466,188)	(59,012)	53,124
Total assets less current liabilities	5,951,524	4,995,153	3,357,847	3,505,791	2,662,328

SUMMARY OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,429,787**	1,223,825	914,925	825,107	735,225
Cost of sales	**(900,753)**	(723,335)	(489,444)	(446,967)	(369,870)
Gross profit	**529,034**	500,490	425,481	378,140	365,355
Selling expenses	**(14,175)**	(13,875)	(10,605)	(9,456)	(8,230)
Administrative expenses	**(135,991)**	(124,490)	(97,604)	(69,857)	(48,993)
Research and development expenses	**(4,160)**	(7,282)	(7,398)	(26,144)	(3,918)
Net impairment losses on financial and contract assets	**(17,562)**	–	–	–	–
Other income	**110,525**	93,291	82,019	42,259	7,910
Other gains/(losses) – net	**2,052**	(4,817)	(1,272)	(2,774)	(4,501)
Operating profit	**469,723**	443,317	390,621	312,168	307,623
Finance income	**56,924**	33,706	16,670	20,005	26,526
Finance costs	**(111,243)**	(104,754)	(80,299)	(64,064)	(55,299)
Finance costs – net	**(54,319)**	(71,048)	(63,629)	(44,059)	(28,773)
Share of results of associates	**(183)**	156	(121)	(367)	(955)
Profit before income tax	**415,221**	372,425	326,871	267,742	277,895
Income tax expense	**(65,494)**	(58,336)	(51,193)	(30,131)	(32,382)
Profit for the year	**349,727**	314,089	275,678	237,611	245,513
Other comprehensive income/(loss)	**3,282**	(1,847)	–	–	–
Total comprehensive income for the year	**353,009**	312,242	275,678	237,611	245,513

SUMMARY OF CONSOLIDATED CASH FLOW STATEMENT

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash (used in)/generated from operating activities	**(712,895)**	104,651	56,649	1,006,988	(61,092)
Net cash used in investing activities	**(450,560)**	(307,700)	(238,304)	(653,515)	(365,396)
Net cash generated from/(used in) financing activities	**938,058**	1,078,366	(459,048)	431,829	163,910
Net (decrease)/increase in cash and cash equivalents	**(225,397)**	875,317	(640,703)	785,302	(262,578)
Effect of exchange rate changes	**13,941**	(30,977)	–	–	–
Cash and cash equivalents at beginning of the year	**1,291,170**	446,830	1,087,533	302,231	564,809
Cash and cash equivalents at end of the year	**1,079,714**	1,291,170	446,830	1,087,533	302,231

SUMMARY OF OPERATING RESULTS BY SEGMENT

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Wastewater treatment					
– Revenue	**1,159,075**	1,037,163	765,906	702,666	680,584
– Gross profit	**480,070**	446,773	386,938	343,366	360,274
– Gross profit margin	**41.4%**	43.1%	50.5%	48.9%	52.9%
Other water-related services					
– Revenue	**115,254**	68,520	62,366	42,244	19,667
– Gross profit	**8,372**	4,233	3,292	4,679	4,583
– Gross profit margin	**7.3%**	6.2%	5.3%	11.1%	23.3%
Others					
– Revenue	**155,458**	118,142	86,653	80,197	34,974
– Gross profit	**40,592**	49,484	35,251	30,095	498
– Gross profit margin	**26.1%**	41.9%	40.7%	37.5%	1.4%

A. OPERATING ENVIRONMENT

Over the previous year, global political and economic situation became complex and volatile. Anti-globalization, unilateralism and trade protectionism increased the risks and uncertainties of economic growth of the world. At the same time, despite domestic macro-economy's stable operation in general, downward pressure of the economy was increasing and endogenous power of the real economy was insufficient. The Group is situated in the national strategic intersection of the "Belt and Road" Initiative and the Yangtze River Economic Belt. We are a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, and the largest wastewater treatment company in Yunnan Province, the PRC. Faced with complicated and ever-changing international and domestic market environment and new changes in the industry, as well as severe and dual pressure of financial and environmental protection supervision, we firmly secured victories in the "three critical missions" in the country and grasped the opportunities of " three card poker " in Yunnan Province. In accordance with the new requirements of the "three-year plan" campaign of Dianchi Lake's protection and treatment, while leveraging environmental protection inspectors of the central, provincial and municipal governments, the Company strived to improve the capacity of ecological civilization construction in terms of protection and treatment service of Dianchi Lake and its market location.

We enjoy exclusive rights to provide wastewater treatment services in Kunming and certain other parts of China. The concession helps the Company maintain and consolidate its operating advantages and competitive edge in the water market in Yunnan Province. Leveraging our concession-based business model, technology, the capability of project implementation, and expansion of service regions, we have achieved stable income and steady business growth and laid a promising foundation for us to consolidate upstream and downstream industrial chains such as water resources, water source protection, sludge resources utilization, develop market segments such as thermal power, electroplating industry wastewater.

1. Overview of Wastewater Treatment Industry

The report of the 19th National Congress of the Communist Party of China put forward that ecological culture construction is a strategy that affects the Chinese people for a millennium to come and that we must uphold and practise the philosophy of "Lucid waters and lush mountains are invaluable assets". We must resolutely fight the battle against pollution. The PRC government introduced the "13th Five-Year" National Urban Wastewater Treatment and Recycling Facilities Construction Plan (《「十三五」全國城鎮污水處理及再生利用設施建設規劃》) which deems wastewater treatment as an important part for the improvement of urban water ecology and environment and required that urban wastewater treatment facilities achieve full coverage by the end of 2020 with a possible capacity of 66.3 billion cubic metres, and wastewater treatment capacity expected to increase from 168.4 million m^3 per day to 218.0 million m^3 per day.

2018 was the first year of fully implementing the spirit of the 19th Party Congress. The government work report of the State Council of China pointed out that the three critical missions of fully building a modestly prosperous society should be put forward and that work ideas and specific measures should be proposed separately. Timetables, road maps and priorities should be arranged to ensure an overall improvement in the quality of ecological environment. During the same year, the China Central Economic Work Conference made specific arrangements for economic work in 2019, decomposing ecological civilization construction into promoting rural revitalization and regional coordination and development to realize normalization of ecological civilization construction.

We sought multi-level and all-round strategic cooperation by focusing on water environment governance and related environmental protection industries, from municipal wastewater treatment to rural micro-polluted water and industrial wastewater, from upstream water resources protection, running water and downstream reclaimed water, sludge disposal to derived business areas such as solid waste industry and thermal power gas supply to build a complete water treatment industrial chain and provide better environmental products and environmental services to cater for the environmental needs of the people and the economic development of the country.

2. Overview of Reclaimed Water Industry

Under the strategic decision of "vigorously promoting construction of ecological civilization", the Chinese government insisted on securing victories in significant battles for ecological civilization construction, such as the battles against pollution, water source protection and cities' black and odorous water treatment, providing an unprecedented market opportunity for the reclaimed water industry. Looking forward, the capacity of reclaimed water is expected to grow at a compound annual growth rate of 10.4% between 2015 and 2020. By 2020, the total production capacity of reclaimed water in China is estimated to reach 41.6 million m^3 per day. Due to strong supports from Yunnan Province for the development of the reclaimed water industry, the total production capacity of reclaimed water in Yunnan Province, the PRC is expected to reach 272,000 m^3 per day in 2020, representing a substantial increase.

3. Overview of Municipal Water Supply Industry

Due to continuous urbanization and construction of water supply facilities in county-level regions, the national municipal running water supply capacity is expected to keep growing at an annual rate of 1.3% in the five coming years, reaching 368.0 million m^3 per day by 2020. In Yunnan Province, the PRC, the municipal running water supply capacity grows continuously. The relocation of manufacturing industry to China's western provinces and the accelerated urbanization in these regions are expected to boost the growth of urban population and Gross Domestic Product (GDP), which in turn will increase the demand for municipal running water supply. The government highly values the development of running water supply in western China. Driven by the state policies, the water treatment services industry is expected to see huge market opportunities and potential in the future. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanization in China and the Chinese government's policy supporting the environmental protection industry. The Board expects that the level of development, scale and growth of such industries will be further promoted and investors in capital markets will also gradually pay more attention to the environmental protection industry.

B. DEVELOPMENT STRATEGY AND PROSPECTS

Ecological civilization construction is a fundamental plan for the sustainable development of the Chinese nation. The National Conference on Ecological Environmental Protection blew the horn of promoting ecological civilization construction, solving ecological and environmental problems and resolutely fighting the battle against pollution and brought ecological civilization construction and environmental pollution control to an unprecedented level. The new era will inevitably lead to development of new industries. Active policy guidance and stringent environmental protection supervision will result in environmental protection industry facing a golden and historic opportunity for survival of the fittest and promotion of healthy development in the industry.

The Company is a leading wastewater treatment and reclaimed water services enterprise in Yunnan Province, the PRC. We are the largest wastewater treatment enterprise in Yunnan Province, the PRC, and one of the major enterprises implementing the PRC's strategic goal to treat pollutants at Dianchi Lake. We enjoy exclusive rights to provide wastewater treatment services in Kunming and certain other areas of China. Our concessions help us maintain and consolidate our advantages and competitive positions in Yunnan Province, and lay a favorable foundation for our consolidation of water treatment resources near Yunnan Province, and exploration into neighboring regions to achieve cross-region operation.

By adhering to the strategic guidance of “unitary domination with diversified development” and positioning as an integrated service provider providing systematic solutions for water environment management, we will actively integrate into and serve the national ecological and environmental protection strategy. With the objectives of maximizing the comprehensive benefits of environment, society and economy and adopting policy-driven, market-driven and innovation-driven measures, we will continue to consolidate wastewater treatment and related main businesses as well as promote the transformation and application of technological innovation achievements in the main business and related fields to make the Company firmly occupy the leading position of technology in the industry. We will use the business model of “solid investment and stable income + operation and sales profit” to implement the investment strategy of “light assets + stable income”. The Company will make good use of the advantages of international and domestic dual financing platforms, sound financial foundation, rich technical reserves, innovative management mode, professional staff to accelerate sustainable improvement in the Company’s market share, core competitiveness, profitability and business performance. We will continue to grow during the period of innovation and strive to become the country’s leading water treatment and environmental protection industry base.

Taking advantage of the unique location advantages of Yunnan and market opportunities brought by the “Belt and Road” Initiative, the Company will focus on developing relevant regions in China and selectively enter the South Asian and Southeast Asian market, gradually expand the global market and continuously enlarge our presence in environmental protection market. Meanwhile, in accordance with the relevant requirements for standardized operation of the listed companies and international corporate governance, we will continue to establish a sound management and control system adaptable to the international and domestic market environment and strengthen financial management and control. We will endeavor to create a closed-loop full-cycle assessment system and risk management system “before investment + during investment + post-investment” of projects and strengthen risk management of accounts receivables to strictly prevent liquidity risks and exchange rate risks. In addition, through actively striving for policy introduction, coordinating with local governments to optimize and adjust the differential classification water price mechanism as well as promote the introduction and implementation of wastewater treatment price adjustment policies, the Company will formulate local sludge use standards as soon as practicable and promote sludge resources utilization and pricing mechanism of kitchen waste projects to create new sectors for profit growth and improve operation and management efficiency steadily, thereby generating sustainable returns for our shareholders.

C. BUSINESS REVIEW

The Group principally adopts the TOO, TOT and BOT project models, with a focus on the TOO model. For the year ended 31 December 2018, our TOO projects contributed 58.4% of our total revenue. Our TOT projects contributed 5.4% of our total revenue and our BOT projects contributed 17.8% of our total revenue. We also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT model, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtained new concessions from or transferred the relevant facilities back to the relevant local governments, depending on project types. As of 31 December 2018, we had a total of 41 plants (35 wastewater treatment plants and 6 running water plants) under concession agreements, of which 38 plants were in operation and 3 plants were under construction. Among the 38 plants in operation, 14 were TOO projects, 19 were TOT projects, 3 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilization rate of our facilities was above the industry average and the volume of wastewater treated was maintained at a high level. For the year ended 31 December 2018, the total volume of wastewater treated was 616.8 million m^3 with an average facility utilization rate of 92.9%.

Wastewater Treatment Projects

As of 31 December 2018, we had a total of 33 wastewater treatment plants in operation (including 14 in Kunming and 19 in other areas of China), with a total wastewater treatment capacity of 1.8 million m^3 per day. We also had 2 wastewater treatment plants under construction in Yunnan Province, the PRC and in Laos, respectively. Additionally, our management services facilities had total designed wastewater treatment capacity of 0.4 million m^3 per day. With our technologically advanced facilities, independently developed patents and strong management skills, we were able to maintain low costs while providing high quality wastewater treatment services. As of 31 December 2018, 92% of our designed wastewater treatment capacity reached the National Class I Category A discharge standard.

Reclaimed Water Business

For our reclaimed water business, as of 31 December 2018, we had 7 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m^3. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. During the Reporting Period, reclaimed water supply was 8,825,235 m^3, representing an increase of approximately 28.2% compared with 2017. We expect this growth momentum to continue as we expand our reclaimed water business.

In recent years, with the construction of sponge cities in China, the construction of sponge cities has also commenced in Kunming City, Yunnan Province. Closely following the national policy and the demand of urban development, we actively entered into the rainwater resources utilization market on the basis of stepping up the expansion of the original reclaimed water business, and gradually formed a new development pattern of coordinated development of reclaimed water and rainwater resources utilization.

We have achieved breakthrough from zero in the area outside the main city of Kunming in respect of our reclaimed water business, and have signed a cooperation agreement on reclaimed water access of the Languang Happy Valley (藍光歡樂谷) in the surrounding area of Luolong River in Chenggong, Kunming and an agreement on the construction of reclaimed water station in Binjiang Junyuan (濱江俊園), Xishuang Banna; We have carried out the promotion of the sponge city construction in the area in Xishuang Banna, Yunnan Province where the waterlogging situation is relatively more serious. We have also undertaken under entrustment the recycling operation business of wastewater water and reclaimed water in the water shortage areas such as Chuxiong area in Yunnan Province.

Running Water Business

For our running water business, as of 31 December 2018, we had 5 running water plants in the PRC, and 1 running water plant under construction.

Our project in Laos marks our first step expanding into the Southeast Asian market. As a leading company in water and environmental protection industry, we will make full use of our rich experiences in water resources development and water environment quality, so as to participate in the Chinese government's "Belt and Road" Initiative and build advantages in overseas expansion based on Yunnan Province' geographical advantage arising from its being the intersection for "Belt and Road" Initiative.

D. FINANCIAL REVIEW

1. Consolidated Results of Operations

Our revenue increased by RMB206.0 million, or 16.8%, to RMB1,429.8 million for the year ended 31 December 2018, from RMB1,223.8 million for the year ended 31 December 2017. For the year ended 31 December 2017, gross profits were RMB500.5 million, which increased to RMB529.0 million for the year ended 31 December 2018 and increased by RMB28.5 million or 5.7%. During the Reporting Period, revenue from sewage treatment services, reclaimed water, running water supply and management services accounted for 81%, 8% and 11% of the total revenue, respectively.

The following discussion addresses the principal trends that have affected our results of operations during the Reporting Period. The following table sets out our consolidated results of operations for the periods indicated:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**1,429,787**	1,223,825
Cost of sales	**(900,753)**	(723,335)
Gross profit	**529,034**	500,490
Selling expenses	**(14,175)**	(13,875)
Administrative expenses	**(135,991)**	(124,490)
Research and development expenses	**(4,160)**	(7,282)
Net impairment losses on financial and contract assets	**(17,562)**	–
Other income	**110,525**	93,291
Other gains/(losses) – net	**2,052**	(4,817)
Operating profit	**469,723**	443,317
Finance income	**56,924**	33,706
Finance costs	**(111,243)**	(104,754)
Finance costs – net	**(54,319)**	(71,048)
Share of results of associates	**(183)**	156
Profit before income tax	**415,221**	372,425
Income tax expense	**(65,494)**	(58,336)
Net profit	**349,727**	314,089
Other comprehensive income/(loss)	**3,282**	(1,847)
Total comprehensive income	**353,009**	312,242

a. *Revenue*

Our revenue increased by RMB206.0 million, or 16.8%, to RMB1,429.8 million for the year ended 31 December 2018 from RMB1,223.8 million for the year ended 31 December 2017, primarily due to:

- Our wastewater treatment segment's revenue increased from RMB1,037.2 million for the year ended 31 December 2017 to RMB1,159.1 million for the year ended 31 December 2018, increased by RMB121.9 million or 11.8%, primarily due to the consolidation of Hongyu Water into the Group from October 2017, which resulted in increase of wastewater treatment revenue by RMB13.5 million for the year. It was also attributable to the consolidation of Dianchi Water (Laos) into the Group from August 2016, which resulted in increase of BOT construction revenue by RMB18.8 million for the year based on the percentage of completion method. Since the consolidation of Dongda Water into the Group from January 2018, wastewater treatment revenue increased by RMB31.8 million in 2018. Since the consolidation of Debei'ao Water into the Group from December 2017, BOT construction revenue increased by RMB3.4 million in 2018. We acquired Kunming No. 10 Water Purification Plant and obtained revenue of RMB50.3 million in 2018.

- Our other water-related services segment's revenue increased from RMB68.5 million for the year ended 31 December 2017 to RMB115.3 million for the year ended 31 December 2018, increased by RMB46.8 million or 68.2%, primarily due to an increase in water supply volume in running water plants. The revenue of running water of demonstration project on reclaimed water supply and water quality improvement in Cui Lake increased by approximately RMB15.6 million. The sales volume of water of our subsidiary Yunnan Reclaimed Water increased in 2018 and the revenue of its water supply business increased by approximately RMB3.9 million. The construction revenue of Shuangjiang County No. 2 Running Water Plant increased by approximately RMB27.2 million based on the percentage of completion method.

- Revenue from other segments increased from RMB118.1 million for the year ended 31 December 2017 to RMB155.5 million for the year ended 31 December 2018, increased by RMB37.4 million or 31.6%, primarily due to the consolidation of Hongyu Thermal Power into the Group from October 2018, which increased revenue by RMB37.3 million in 2018.

b. *Cost of sales*

Our cost of sales increased by RMB177.5 million, or 24.5%, to RMB900.8 million for the year ended 31 December 2018, from RMB723.3 million for the year ended 31 December 2017, primarily due to an increase in construction costs of wastewater treatment segment in 2018. Details are as follows:

- Our cost of sales for the wastewater treatment segment increased by RMB88.6 million, or 15.0%, to RMB679.0 million for the year ended 31 December 2018, from RMB590.4 million for the year ended 31 December 2017, primarily due to the increase in costs of the water plants operated by us by RMB43.9 million as the water treatment volume increased. Due to the Hongze Wastewater Treatment Facility Reconstruction Project, the BOT construction cost increased by RMB20.0 million for the year based on the percentage of completion method. Since the consolidation of Debei'ao Water into the Group from January 2018, BOT construction revenue increased by RMB3.4 million in 2018 based on the percentage of completion method. Since the consolidation of Dongda Water into the Group from January 2018, TOT cost increased by RMB21.3 million in 2018 based on the percentage of completion method.

- Our cost of sales for other water-related services segment increased by RMB42.6 million, or 66.3%, to RMB106.9 million for the year ended 31 December 2018, from RMB64.3 million for the year ended 31 December 2017, primarily due to the increase in material, labor and other costs of the Company's water supply business by RMB24.0 million. The sales volume of water of Yunnan Reclaimed Water increased in 2018, while the cost of its water supply business increased by approximately RMB2.4 million. The construction cost of Shuangjiang County No. 2 Running Water Plant increased by approximately RMB27.2 million based on the percentage of completion method.

- Our cost of sales for other segments increased by RMB46.2 million, or 67.3%, to RMB114.9 million for the year ended 31 December 2018, from RMB68.7 million for the year ended 31 December 2017, primarily due to the consolidation of Hongyu Thermal Power into the Group from October 2018, which increased cost by RMB28.2 million during the Reporting Period. The scope of service of Yunnan Reclaimed Water increased and relevant materials and labor costs increased by approximately RMB3.5 million. The water quality monitoring service of our subsidiary Kunming Dianchi Water Environment Monitoring Co., Ltd.* (昆明滇池水務環境監測有限公司) also increased, attributable to an increase in relevant costs by RMB3.5 million.

* *For identification purposes only*

c. *Gross margin*

Our gross profit increased by RMB28.5 million, or 5.7%, to RMB529.0 million for the year ended 31 December 2018, from RMB500.5 million for the year ended 31 December 2017, primarily due to an increase of RMB33.3 million in profit from our wastewater treatment segment, a increase of RMB4.1 million in profit from our other water-related service segment, and a decrease of RMB8.9 million in profit from our other segments.

- Our gross profit margin decreased by 3.9% to 37.0% for the year ended 31 December 2018 from 40.9% for the year ended 31 December 2017, primarily due to a decrease in gross profit margin of wastewater treatment, partially offset by an increase in gross profit margin of other water-related service segment and other segments.

- Our gross profit for the wastewater treatment segment increased by RMB33.2 million, or 7.5%, to RMB480.0 million for the year ended 31 December 2018, from RMB446.8 million for the year ended 31 December 2017. Our segment gross margin decreased by 1.7% to 41.4% for the year ended 31 December 2018 from 43.1% for the year ended 31 December 2017, primarily due to a relatively large proportion of cost in the revenue and lower gross margin in the construction phase of three projects, namely the newly signed Leshan Yingguan/Niuhua BOT project, the BOT project of Yiliang Industrial Park Wastewater Treatment Plant and auxiliary works and the BOT project of Laos Golden Triangle Wastewater Treatment Plant.

- Our gross profit for other water-related services segment increased by RMB4.1 million, or 97.8%, to RMB8.4 million for the year ended 31 December 2018, from RMB4.3 million for the year ended 31 December 2017. Our segment gross margin increased by 1.1% to 7.3% for the year ended 31 December 2018 from 6.2% for the year ended 31 December 2017, primarily due to an decrease in the proportion of construction revenue with lower gross profit.

- Our gross profit for other segments decreased by RMB8.9 million, or 18.0%, to RMB40.6 million for the year ended 31 December 2018, from RMB49.5 million for the year ended 31 December 2017. Our segment gross margin decreased by 15.8% to 26.1% for the year ended 31 December 2018 from 41.9% for the year ended 31 December 2017, primarily because, during the year, the newly increased BT projects of the Shipansi and Laoqingshan flood control and detention works were at construction stage, while the construction gross profit of the construction stage was 5%, which is relatively low, resulting in a decrease in overall gross profit margin.

d. *Selling expenses*

Our selling expenses increased by RMB0.3 million, or 2.2%, to RMB14.2 million for the year ended 31 December 2018, from RMB13.9 million for the year ended 31 December 2017, which was substantially in line with that of last year.

e. *Administrative expenses*

Our administrative expenses increased by RMB11.5 million, or 9.2%, to RMB136.0 million for the year ended 31 December 2018, from RMB124.5 million for the year ended 31 December 2017, primarily due to the generation of a start-up fee of RMB4.7 million for Dianchi International Holdings Limited (滇池國際控股有限公司), the consolidation of Dongda Water, Debei'ao Water and Hongyu Thermal Power into the Group in 2018, resulting in an increase in administrative expenses of RMB2.3 million. At the same time, employee compensation and professional service fees increased by RMB6.0 million.

f. *Research and development expenses*

Our research and development expenses decreased by RMB3.1 million, or 42.9%, to RMB4.2 million for the year ended 31 December 2018, from RMB7.3 million for the year ended 31 December 2017. The research and development expenses in 2018 were mainly generated from major water projects of approximately RMB3.0 million and process optimization and reconstruction of industrial wastewater treatment plant amounted to RMB0.7 million. In 2018, certain research and development projects were recognized as intangible assets in line with capitalization conditions, resulting in lower research and development expenses in 2018 compared to 2017.

g. *Net impairment losses on financial and contract assets*

Impairment losses on financial assets and contract assets increased from RMB0 for the year ended 31 December 2017 to RMB17.6 million for the year ended 31 December 2018, representing an increase of RMB17.6 million, mainly because the Group revised its impairment method for financial assets and contract assets in accordance with IFRS 9. In January 2018, the provision for losses to be recognised was not significant and the provision for losses during the Reporting Period increased to RMB17.6 million.

h. *Other income*

Our other income increased by RMB17.2 million, or 18.5%, to RMB110.5 million for the year ended 31 December 2018, from RMB93.3 million for the year ended 31 December 2017, primarily due to the increase in tax rebate received from government subsidies in relation to operating activities by RMB25.9 million and the increase in government subsidies in relation to fixed assets by RMB6.1 million. However, the government subsidies in relation to revenue decreased by RMB13.0 million.

i. ***Other gains/(losses) – net***

Our other gains/(losses) increased by RMB6.9 million, or 142.6%, to other gains RMB2.1 million for the year ended 31 December 2018, from other losses RMB4.8 million for the year ended 31 December 2017, primarily due to the acquisition of Hongyu Thermal Power in 2018 generated a revenue of RMB3.8 million and donation expenditure decreased by RMB3.2 million.

j. ***Operating profit***

As a result of the foregoing factors, our operating profit increased by RMB26.5 million, or 6.0%, to RMB469.8 million for the year ended 31 December 2018, from RMB443.3 million for the year ended 31 December 2017. Our operating margins for the years ended 31 December 2018 and 2017 were 32.9% and 36.2%, respectively.

k. ***Finance income***

Our finance income increased by RMB23.2 million, or 68.9%, to RMB56.9 million for the year ended 31 December 2018, from RMB33.7 million for the year ended 31 December 2017, primarily due to an increase in interest income from construction services by RMB11.8 million. Interest income from related party loans increased by RMB7.8 million and interest income from time deposits increased by RMB3.6 million.

l. ***Finance costs***

Our finance costs increased by RMB6.4 million, or 6.2%, to RMB111.2 million for the year ended 31 December 2018, from RMB104.8 million for the year ended 31 December 2017, primarily due to an increase in interest expense by RMB49.3 million, mainly attributable to an increase of RMB221 million in our bank loans within 2018 and an increase in exchange income of RMB43.1 million.

m. ***Profit before income tax***

As a result of the foregoing factors, our profit before income tax increased by RMB42.8 million, or 11.5%, to RMB415.2 million for the year ended 31 December 2018 from RMB372.4 million for the year ended 31 December 2017.

n. ***Income tax***

We incurred income tax expenses of RMB58.3 million for the year ended 31 December 2017 and RMB65.5 million for the year ended 31 December 2018 respectively at effective tax rates of 15.7% and 15.8%, respectively. Our effective tax rates remained substantially the same as last year, primarily because our tax beneficial treatments for some of our wastewater treatment facilities expired and the subsidiaries we acquired were not qualified for the preferential income tax rate of 15% under the “West Region Development Policy” and were required to pay full corporate income tax at the tax rate of 25%, therefore the effective tax rate was slightly higher than 15%.

o. Total comprehensive income

As a result of the foregoing factors, our total comprehensive income increased by RMB40.8 million, or 13.1%, to RMB353.0 million for the year ended 31 December 2018 from RMB312.2 million for the year ended 31 December 2017.

2. Liquidity and Capital Resources

Our primary uses of cash are for investing in, constructing, operating and maintaining our wastewater treatment and water supply facilities. To date, we have funded our investments and operations principally with bank loans, cash generated from our operations, equity contributions and issuance of debt instruments.

The following table sets out our cash flows for the years indicated:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(712,895)**	104,651
Net cash used in investing activities	**(450,560)**	(307,700)
Net cash generated from financing activities	**938,058**	1,078,366
Net (decrease)/increase in cash and cash equivalents	**(225,397)**	875,317
Effect of foreign exchange rates	**13,941**	(30,977)
Cash and cash equivalents at beginning of the year	**1,291,170**	446,830
Cash and cash equivalents at end of the year	**1,079,714**	1,291,170

a. Net cash generated from/used in operating activities

Our net cash generated from operating activities primarily consists of cash received from our clients for services provided by us. We also use cash in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of interest and income tax.

For the year ended 31 December 2018, our net cash used in operating activities was RMB712.9 million and was RMB104.7 million for the year ended 31 December 2017, representing a decrease of RMB851.6 million, primarily comprising cash generated from operations amounting to RMB631.0 million, income tax paid amounting to RMB54.5 million and interest paid amounting to RMB27.4 million. The decrease in 2018 was mainly due to the increase in receivables under the concession agreement by RMB592.1 million in 2018 and the increase in trade and other receivables by RMB556.2 million.

b. *Net cash used in investing activities*

Our net cash used in investing activities has principally been used to purchase property, plant and equipment and equity interests in subsidiaries and associates.

Our net cash used in investing activities increased to RMB450.6 million for the year ended 31 December 2018 from RMB307.7 million for the year ended 31 December 2017, primarily comprising the purchase of property, plant and equipment amounting to RMB328.2 million and the acquisition of subsidiaries amounting to RMB148.1 million. The net cash used in investing activities in 2018 increased by RMB142.9 million compared with that of 2017, primarily due to an increase in the amount of cash paid for the purchase of property, plant and equipment during the year by RMB193.7 million compared with that of 2017. Cash paid for acquisition of subsidiaries included: RMB48.2 million paid for acquiring Debei'ao Water, RMB72.1 million paid for acquiring Dongda Water and RMB41.4 million paid for acquiring Hongyu Thermal Power.

c. *Net cash generated from financing activities*

Our net cash generated from financing activities primarily represents borrowings.

For the year ended 31 December 2017, our net cash generated from financing activities was RMB1,078.4 million (net inflow) and was changed to RMB938.1 million (net inflow) for the year ended 31 December 2018, primarily comprising the proceeds from borrowings of RMB2,095.0 million, partially offset by repayments of borrowings amounting to RMB934.0 million. The difference between net cash generated from financing activities for 2018 and 2017 was primarily attributable to an increase of RMB1,045.0 million in borrowings in 2018 and cash inflow of RMB1,072.3 million from the listing of H shares in 2017.

3. Working Capital

The table below presents our current assets and current liabilities as at the year and dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current assets		
Receivables under service concession arrangements	**15,408**	13,747
Inventories	**12,921**	7,515
Amounts due from customers for construction contracts	**18,911**	12,296
Financial assets at fair value through profit or loss	**170,000**	–
Available-for-sale financial assets	**–**	80,000
Trade and other receivables	**942,551**	386,397
Cash and cash equivalents	**1,079,714**	1,291,170
Restricted cash	**17,916**	–
Total current assets	**2,257,421**	1,791,125
Current liabilities		
Trade and other payables	**379,708**	369,850
Current income tax liabilities	**84,589**	60,238
Borrowings	**1,014,505**	599,570
Contract Liabilities	**11,737**	–
Total current liabilities	**1,490,539**	1,029,658
Net current assets	**766,882**	761,467

We recorded net current assets of RMB766.9 million as of 31 December 2018 and net current liabilities of RMB761.5 million as of 31 December 2017, respectively. The increase in our net current assets was mainly attributable to an increase in receivables from local governments and related parties.

a. ***Receivables under service concession arrangements***

We accrue receivables under service concession arrangements throughout a concession period. Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects), adjusted by operation services and finance income after deducting payments accrued throughout a concession period. Under our BOT and TOT agreements, the amounts of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects. The portion of the receivables under service concession arrangements due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our receivables under service concession arrangements that were classified as current assets amounted to RMB15.4 million as of 31 December 2018. This represented a year-on-year increase of 12.1% between 2017 and 2018, primarily due to an increase in the number of service concession projects we undertook.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB1,120.4 million as of 31 December 2018. This represented a year-on-year increase of RMB590.4 million or 111.4% from 2017 to 2018, primarily due to receivables of RMB120.0 million and RMB63.4 million recognised under the respective concession agreement acquired from the consolidation of Dongda Water and Debei'ao Water into our financial results in January 2018, as well as receivables of RMB150.0 million recognised based on percentage-of-completion of the newly-signed Shuanghe Project. Trade receivables of RMB147.5 million were recognised based on percentage-of-completion of the newly-signed Shuanghe Reservoir Concession Project in Yiliang County. Trade receivables of RMB82.6 million were recognised based on percentage-of-completion of the newly-signed Yiliang County Rural Wastewater Treatment Station and its affiliated facilities, Township Wastewater Treatment Station and collection pipe network construction project (Phase I). Trade receivables of RMB43.5 million were recognised based on percentage-of-completion of the Concession Project of Shuangjiang Dianchi Water Treatment Co., Ltd. Trade receivables of BOT construction revenue amounting to RMB19.9 million were recognised based on percentage-of-completion of the Concession Project of Dianchi Water (Laos).

b. Inventories

Our total inventory balance increased by RMB5.4 million, or 71.9%, to RMB12.9 million as of 31 December 2018 from RMB7.5 million as of 31 December 2017, representing an increase in raw materials by RMB2.6 million, or 110.8%, to RMB5.0 million as of 31 December 2018 from RMB2.4 million as of 31 December 2017 and an increase in spare parts by RMB2.8 million, or 54.2%, to RMB8.0 million as of 31 December 2018 from RMB5.2 million as of 31 December 2017.

For the years ended 31 December 2017 and 2018, our inventory turnover days were approximately 4.5 days (calculated as the average inventories for the relevant year divided by the cost of sales recognised as cost of sales for the relevant year, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2017 and 2018). The inventory turnover days for 2018 remained stable.

c. Amounts due from customers for construction contracts

The portion of amounts due from customers for construction contracts due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets. Our total amounts due from customers for construction contracts increased by RMB59.9 million, or 23.9%, to RMB310.6 million as of 31 December 2018 from RMB250.7 million as of 31 December 2017, primarily because the balance of construction contract receivables as at the end of 2018 of the newly signed Main City South Resort Project, Xundian County Park Project and Shipensi Laoqingshan Project amounted to RMB19.6 million, RMB24.0 million and RMB13.2 million, respectively.

d. Trade and other receivables

Our trade and other receivables primarily consist of (i) trade receivables from third parties, related parties and local governments; (ii) other receivables from third parties, related parties and local governments; and (iii) prepayments. Our trade receivables are amounts due from customers for services provided in the ordinary course of business, including services performed for TOO and TOT projects and performed during the operation period of BOT projects. Our other receivables primarily consist of loans granted to and interest receivable from related parties, and VAT refund yet to be received. Our prepayments primarily consist of prepaid electricity bills.

The following table shows the breakdown of our consolidated trade and other receivables as of the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	50,824	4,852
– Related parties	117,780	95,467
– Local government	434,418	146,232
– Loss allowance	(9,654)	–
Trade receivables – net	593,368	246,551
Other receivables:		
– Third parties	28,481	5,176
– Related parties	24,780	68,857
– Local government	125,367	55,665
– Loss allowance	(640)	–
Other receivables – net	177,988	129,698
Prepayments:		
– Related parties	60	–
– Local government	3,304	–
– Others	167,831	10,148
Prepayments – net	171,195	10,148
Trade and other receivables – net	942,551	386,397

Our net trade and other receivables increased by RMB556.2 million, or 143.9%, to RMB942.6 million as of 31 December 2018 from RMB386.4 million as of 31 December 2017, reflecting (i) an increase in trade receivables due from local government by RMB288.2 million, or 197.1%, to RMB434.4 million as of 31 December 2018 from RMB146.2 million as of 31 December 2017, primarily due to wastewater treatment fees charged for the forth quarter of 2018, which had been recognised but not yet paid by the relevant government authorities; (ii) an increase in amounts due from related parties by RMB22.3 million, or 23.4%, to RMB117.8 million as of 31 December 2018 from RMB95.5 million as of 31 December 2017, primarily due to service fees for entrusted operation which had been recognised but not yet paid. In 2018, the amount of prepaid construction expense increased by approximately RMB157.7 million, including the construction projects of Yiliang Industrial Park and Dianchi Resort amounting to RMB25.1 million, the over-limit phosphorus removal and upgrading project amounting to RMB96.9 million and the Shipensi and Laoqingshan flood control projects amounting to RMB33.7 million.

The aging analysis of trade receivables of our Group is shown as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
– Within one year	**576,932**	243,528
– Over one year and within two years	**23,067**	3,023
– Over two years	**3,023**	–
	603,022	246,551

(a) Aging analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
– Within one year	**576,932**	243,528
– Over one year and within two years	**23,067**	3,023
– Over two years	**3,023**	–
	603,022	246,551

The Group does not hold any collateral as security over these debtors.

The following table sets out our receivable turnover days for the periods indicated:

	As at 31 December	
	2018	2017
	Days	*Days*
Trade receivable turnover days(1)	**54.2**	55.6
Trade and other receivable turnover days(2)	**100.8**	103.4

Notes:

(1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended 31 December 2017 and 2018.

(2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended 31 December 2017 and 2018.

e. *Trade and other payables/Contract Liabilities*

Trade and other payables

Our trade and other payables primarily consist of trade payables, other payables, staff salaries and welfare payables, advance from customers, payables on acquisition of property, plant and equipment, payables on acquisition of land use rights from related parties, interest payables, and accrued taxes other than income tax.

The following table shows the breakdown of our trade and other payables as of the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**31,006**	3,802
Other payables	**106,923**	71,899
Consideration payable for acquisition of subsidiaries	**23,619**	12,690
Staff salaries and welfare payables	**46,091**	28,667
Advance from customers	**–**	6,124
Payables on acquisition of property, plant and equipment	**69,755**	84,297
Payables on acquisition of land use rights from related parties	**58,194**	58,194
Interest payables	**2,982**	2,021
Accrued taxes other than income tax	**41,138**	102,156
	379,708	369,850

Contract Liabilities

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contract liabilities		
– related parties	**1,362**	–
– local government	**8,516**	–
– third parties	**1,859**	–
	11,737	–

Our trade and other payables increased by RMB9.9 million, or 2.7%, to RMB379.7 million as of 31 December 2018 from RMB369.9 million as of 31 December 2017. The increase was mainly because the newly acquired Dongda Water, Debei'ao Water and Hongyu Thermal Power increased accounts payables by approximately RMB21.1 million in 2018 and the balance of salaries and wages payables increased by approximately RMB12.7 million in 2018, which was mainly due to an increase in salary levels and year-end bonuses for the year.

The aging analysis of trade payables of our Group is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
– Within one year	**16,682**	3,471
– Over one year and within two years	**14,324**	331
	31,006	3,802

As at 31 December 2017 and 2018, all trade and other payables of the Group were non-interest bearing, and their fair values approximated their carrying amounts due to their short maturities.

The following table sets out our payable turnover days for the periods indicated:

	As at 31 December	
	2018	2017
	Days	*Days*
Trade and other payables turnover days(1)	**151.9**	199.9
Trade payables turnover days(2)	**102.3**	37.4

Notes:

(1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2017 and 2018.

(2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 365 days for the years ended 31 December 2017 and 2018.

Our trade payables turnover days increased by 64.9 days in 2018 as compared with 2017, mainly due to an increase in ending balance of trade payables by RMB27.2 million.

The directors of the Company confirm that up to 31 December 2018, there was no material default in payment of trade payables.

4. Indebtedness

a. *Borrowings*

All of our borrowings are denominated in RMB and some are secured by our property, plant and equipment. The following table shows our borrowings as of the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Unsecured long-term borrowings	**588,000**	397,000
Secured long-term borrowings	**480,635**	–
Corporate bonds	**696,064**	694,625
Total non-current borrowings	**1,764,699**	1,091,625
Current		
Unsecured short-term borrowings	**917,000**	552,000
Secured short-term borrowings	**97,505**	47,570
Total current borrowings	**1,014,505**	599,570
Total borrowings	**2,779,204**	1,691,195

The weighted average effective interest rates at each balance sheet date are as follows:

	As at 31 December	
	2018	2017
Average effective interest rates	**5.25%**	4.58%

As of 31 December 2017 and 2018, our total borrowings amounted to RMB1,691.2 million and RMB2,779.2 million, respectively, of which the total long-term borrowings were RMB397.0 million and RMB603.0 million, respectively, representing an increase of RMB206.0 million; the total amount of long-term borrowings due within one year were RMB32 million and RMB367 million, representing an increase of RMB335.0 million, mainly due to the expiration of most long-term loans and relatively large borrowing demand for BT and BOT construction projects of subsidiaries. Among our indebtedness, borrowings amounting to RMB47.6 million and RMB578.1 million as of 31 December 2017 and 2018, respectively, were secured by our property, plant and equipment. The reason for the increase was that we added a finance lease of RMB600 million from Bank of Communications Financial Leasing Co., Ltd., with a non-current portion of RMB465 million. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on 25 December 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree with the adjustment made to the interest rates, they may choose to demand an early redemption of outstanding corporate bonds.

As of 31 December 2018, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us or had demanded any early repayment.

As of 31 December 2018, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. As of 31 December 2018, we had not received any requests for early repayment of the principal or interests under any of our loan agreements, and we did not have any plan for material external debt financing.

The table below sets out the maturity profiles of our borrowings as of the dates indicated:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
On demand or within 1 year	**1,014,505**	599,570
Between 1 and 2 years	**584,810**	317,000
Between 2 and 5 years	**1,138,656**	80,000
Later than 5 years	**41,233**	694,625
	2,779,204	1,691,195

As of 31 December 2017 and 2018, our net gearing ratios were 7.9% and 27.9%, respectively. Our net gearing ratios as at 31 December 2018 increased as compared with 31 December 2017 primarily due to an increase in ending balance of borrowings by RMB1,088 million in 2018.

Except as disclosed above, as of the 31 December 2018, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

b. Commitments

(a) Capital commitments

(i) Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**37,074**	101,957

(ii) Acquisition of equity interests in subsidiaries:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Acquisition of equity interests in subsidiaries	**865**	122,200

(b) Operating lease commitments – the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**315**	121
Later than 1 year and no later than 2 years	**305**	121
Later than 2 years and no later than 5 years	**963**	363
Later than 5 years	**4,707**	2,253
	6,290	2,858

(c) Concession projects and construction projects contracted at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Concession projects and construction projects	**148,788**	–

c. *Capital expenditure*

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenses were RMB229.8 million and RMB1,011.8 million for the years ended 31 December 2017 and 2018, respectively. We expect to fund our contractual commitments and capital expenditures principally through cash generated from our operating activities, proceeds from borrowings and the net proceeds we receive from the global offering of H shares.

Our capital expenditure for each of our segments as at the dates indicated below is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wastewater treatment	**660,985**	205,626
Other water-related services	**34,201**	23,691
Others	**316,586**	483
	1,011,772	229,800

Based on our current business plan, we expect to incur capital expenditure amounting to RMB399.5 million for the year ending 31 December 2019. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

5. Off-balance sheet arrangements

Other than as disclosed in this report and as of 31 December 2018, we did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. In the course of our business operations, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposed.

6. Initial public offering and use of proceeds from initial public offering

The H shares of the Company were listed on the Hong Kong Stock Exchange on 6 April 2017 and the Company issued 339,430,000 H shares of par value of RMB1.00 per share with the Offer Price of HK$3.91 per H share. The total issuance size (before deducting the expenses) amounted to approximately HK$1,327,171,300. Following the Listing of H shares of the Company, a total of 593,000 shares of H shares were over-allocated. After deducting (i) the net proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering; and (ii) the underwriting commissions and other expenses relating to the Global Offering, the Company received net cash proceeds of RMB1,072.3 million from the Global Offering.

As of 31 December 2018, approximately RMB626 million, accounting for 58.3% of RMB1,072.3 million of net cash proceeds from the Global Offering, has been used pursuant to use of proceeds as follows: RMB127 million was invested in BOT/BOO wastewater treatment and running water supply projects; RMB286.1 million was used to pay for the acquisition of TOT/TOO wastewater treatment and running water supply projects; and RMB212.9 million was used to repay loan interest.

The remaining proceeds will be used according to the progress of the Company's investment projects and is expected to be used up within 1.24 years, details of which include:

- Approximately 23.16% (or RMB248.31 million) will be used for BOT/BOO wastewater treatment and running water supply projects;
- Approximately 8.32% (or RMB89.2 million) will be used to acquire TOT/TOO wastewater treatment and running water supply projects;
- Approximately 0.15% (or RMB1.56 million) will be used to repay loan interest; and
- Approximately 10% (or RMB107.23 million) will be used for daily operation of the Group.

7. Foreign exchange risk and management

The Group maintained some of the capital denominated in foreign currency, mainly the Hong Kong dollar. Fluctuations in exchange rate would influence our reserve in foreign currencies to a certain extent and the Company is exploring and discussing measures to respond to foreign exchange risk.

8. Employees and remuneration policies

For details of employees and remuneration policies, please refer to "Report of the Board of Directors – A. Business Review – 7. Relationship with Employees".

9. Contingent liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

10. Material charges on assets

There were no material charges on the Group's assets during the Reporting Period.

11. Major investment and acquisition

We have disclosed in the Results Announcement for the Year Ended 31 December 2017 dated 26 March 2018, that the Company has completed acquisitions of Debei'ao Water, Dongda Water and facilities of Kunming No. 10 Water Purification Plant in January 2018. For details, please refer to the above-mentioned results announcement.

On 8 October 2018, the Company, Hongyu Thermal Power, Zhuji Environmental Protection, Yang Zhiying and Huang Weifei have entered into the Share Transfer Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendors (i.e. Zhuji Environmental Protection and Yang Zhiying) have conditionally agreed to sell the total 100% equity interest in Hongyu Thermal Power for the Consideration of RMB41,402,600. Upon completion of the acquisition in October 2018, Hongyu Thermal Power has become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities have been consolidated into the Group. For details, please refer to the Company's announcement dated 8 October 2018 and the further announcement dated 23 October 2018.

Save for the foregoing disclosures, the Company had no plans of major investments or capital and asset acquisition as of 31 December 2018.

A. EXECUTIVE DIRECTORS

Ms. Guo Yumei (郭玉梅), aged 51, joined our Group in July 1990. Ms. Guo was appointed as an executive Director and the general manager of our Company in January 2011 and as the Chairperson of the Board on 23 June 2016. She has over 25 years of experience in the wastewater treatment industry and is responsible for strategic decision making and management of our Company's operations. Ms. Guo is currently the chairperson of the Strategy and Investment Decision Committee, and a member of the Remuneration and Appraisal Committee and the Nomination Committee of our Company.

Ms. Guo joined Kunming Dianchi Investment in July 2006 and has been the vice chairperson of the Board of Directors of Kunming Dianchi Investment since January 2015. Positions which she held at Kunming Dianchi Investment included manager of its public affairs department, chief operating officer for its public affairs, assistant to the general manager and deputy general manager from July 2006 to January 2015. Ms. Guo worked at Kunming Municipal Utility Tariff Bureau (昆明市政公用局排水收費處) from July 1990 to December 1995. She worked at Kunming City Drainage Co. Ltd. (昆明市城市排水公司) from December 1995 to January 2002, responsible for the management of drainage, and she was a division chief of its general affairs division from January 2002 to July 2006, during which time she also worked at the Second General Affairs Division of Kunming Municipal Dianchi Administration Bureau (昆明市滇池管理局綜合二處) from October 2003 to May 2004.

Ms. Guo obtained a bachelor's degree in analytical chemistry from Yunnan University (雲南大學) in Yunnan Province, the PRC in July 1990. Ms. Guo has been recognised as a senior engineer in water supply and drainage since 2015. She was recognised as a "Young and Middle-aged Academic and Technology Leader of Kunming" (昆明市中青年學術和技術帶頭人) by the government of Kunming in 2012, and was recognised as an "Outstanding Woman Leader in Yunnan" (雲南省三八紅旗手) by Women's Union and Human Resources and Social Security Department of Yunnan Province in 2014. Ms. Guo was also named as a "2008-2012 Leader in Municipal Wastewater and Domestic Sewage Treatment Facilities Development in Yunnan Province" (雲南省2008年至2012年城鎮污水生活垃圾處理設施建設先進個人) by the Yunnan provincial government in 2013. She obtained the prize of "Leader in Energy Saving and Emission Reduction during the 11th Five-Year Plan in Yunnan Province" (雲南省〈十一五〉期間節能減排工作先進個人) in April 2011. "Kunming Urban Drainage Network Geographic Information System" program leaded by Ms. Guo received the "Third Prize of Yunnan Province Science and Technology Award" (雲南省科學技術科技進步三等獎) by the Yunnan provincial government in 2007. In January 2018, Ms. Guo was elected as a delegate to the 13th People's Congress (the "**People's Congress**") of Yunnan Province.

Mr. Luo Yun (羅雲), aged 40, joined our Group in June 2013 and was appointed as an executive Director of our Company on 23 June 2016. Mr. Luo has been the deputy general manager of our Company since January 2015, responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction. He served as an assistant to the general manager from June 2013 to January 2015, responsible for assisting the general manager in the management of our Company's operation, development, investment programs and marketing strategies. Mr. Luo is currently a member of the Strategy and Investment Decision Committee of our Company.

Mr. Luo served as a director of coordination department at Kunming Dianchi Project Management Company (昆明滇池項目管理有限公司), a subsidiary of Kunming Dianchi Investment, from June 2008 to June 2009. He also served at Kunming Dianchi Property Development Company Limited (昆明滇池置業有限責任公司), a subsidiary of Kunming Dianchi Investment, as the deputy general manager from June 2009 to June 2013. From June 2012 to 3 November 2016, Mr. Luo served as a director of Kunming Dianxing Property Development Co., Ltd. (昆明滇星房地產開發有限責任公司) and Kunming Dianlong Property Development Co., Ltd. (昆明滇龍房地產開發有限責任公司).

Mr. Luo graduated from Yunnan University (雲南大學) in Yunnan Province, the PRC, majoring in engineering management in January 2007, and obtained a master's degree in agricultural extension from Southwest Forestry University (西南林業大學) in Yunnan Province, the PRC in January 2013.

B. NON-EXECUTIVE DIRECTORS

Ms. Ma Ce (馬策), aged 40, joined our Group in June 2018 and was appointed as a non-executive Director of the Company on 22 June 2018. Ms. Ma participates in the development of our business strategies.

Ms. Ma joined Yunnan Asset Management Co., Ltd. (雲南省資產管理有限公司), a wholly-owned subsidiary of Yunnan Investment Holding Group Co., Ltd. (雲南省投資控股集團有限公司), in November 2017, and has been serving as an executive deputy general manager of the company since November 2017. From July 2005 to September 2007, she worked in Yunnan Development Investment Co., Ltd. (雲南省開發投資有限公司, currently known as Yunnan Investment Holding Group Co., Ltd.) and held various positions, including a clerk of department of party-mass affairs and the business director of the strategic development department. From September 2007 to November 2017, she was employed by Yunnan Investment Holding Group Co., Ltd. and held various positions, including the business director, vice business supervisor, senior project supervisor, project manager assistant and deputy general manager of financial department.

Ms. Ma graduated from the Economic Management Department of Harbin Institute of Technology (哈爾濱工業大學) in the PRC, majoring in accounting in July 2002, and studied at the Party School of Sichuan Provincial Committee (四川省委黨校), majoring in political economy from September 2002 to July 2005 and obtained a master's degree in economics.

Ms. Song Hong (宋紅), aged 55, joined our Group in June 2016 and was appointed as a non-executive Director of our Company on 23 June 2016. Ms. Song participates in the development of our business strategies. She has over 33 years of experience in finance sector. Ms. Song joined Kunming Dianchi Investment in September 2008. She served as a director and the chief financial officer of Kunming Dianchi Investment since June 2012. Ms. Song serves concurrently as a director of Kunming Diantou Bishuiyuan Water Technology Co., Ltd (昆明滇投碧水源水務科技有限公司).

Ms. Song worked at Kunming Tap Water Group Co., Ltd. (昆明市自來水集團有限責任公司) from December 1982 to September 2008, and served as the deputy Director of finance department from December 2005 to September 2008. Ms. Song served as the director of the financial center of Kunming Dianchi Investment from September 2008 to September 2012.

Ms. Song studied at the Party School of Yunnan Provincial Committee of the Chinese Communist Party (中國共產黨雲南省委員會黨校) in Yunnan Province, the PRC, majoring in economic management from September 1997 to December 1999.

C. INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yin Xiaobing (尹曉冰), aged 45, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016. Mr. Yin participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management. He is currently the chairman of the Audit Committee and the Nomination Committee, and a member of the Strategy and Investment Decision Committee and the Remuneration and Appraisal Committee of our Company.

Mr. Yin currently serves as an associate professor of the School of Business Administration and Tourism Management, the head of the financial management department, and a tutor for master's degree students of Yunnan University (雲南大學), a visiting scholar of the Sloan School of Management of the Massachusetts Institute of Technology, and a non-practicing member of Chinese Institute of Certified Public Accountants.

Mr. Yin serves as a director in the following companies listed on the Shenzhen Stock Exchange:

Serving time	Company name	Position
April 2013 to November 2017	Yunnan Yuntou Ecology and Environment Technology Co., Ltd. (雲南雲投生態環境科技股份有限公司, formerly known as Yunnan Green Land Biotechnology Co., Ltd. (雲南綠大地生物科技股份有限公司)) (Stock code: 002200)	Independent non-executive director
May 2014 to present	Yunnan Aluminum Co., Ltd. (雲南鋁業股份有限公司) (Stock code: 000807)	Independent non-executive director
June 2016 to present	Yunnan Copper Industry Limited (雲南銅業股份有限公司) (Stock code: 000878)	Independent non-executive director

Mr. Yin also serves as the general manager of Yunnan Tianshu Yuheng Equity Investment Fund Management Co., Ltd. (雲南天樞玉衡股權投資基金管理有限公司), the chairman of the board of directors of Kunming Zhongbei Financing Guarantee Company (昆明中北融資擔保公司), and a director of Yunnan Shennong Agricultural Industry Group Co., Ltd. (雲南神農農業產業集團股份有限公司) and Kunming Land Development Investment Management Co., Ltd. (昆明市土地開發投資經營有限責任公司). Mr. Yin has been serving as a director of State-owned Assets Operation and Investment Management Company Limited (國有資產經營投資集團有限公司) in Panlong District, Kunming since February 2018. He has been serving as a director of Kunming Economic and Technological Development Zone Investment and Development Group Co. Ltd. (昆明經濟技術開發區投資開發(集團)有限公司) since May 2018 and an executive director and manager of Guokuangtengda (Beijing) Investment Fund Management Co., Ltd. (國礦騰達(北京)投資基金管理有限公司).

Mr. Yin obtained a bachelor's degree in applied mathematics from Yunnan University (雲南大學) in Yunnan Province, the PRC, in June 1997, a master's degree in management from Yunnan University (雲南大學) in July 2000, and a doctorate degree in political economy from Yunnan University (雲南大學) in December 2012.

Mr. He Xifeng (何錫鋒), aged 56, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016. Mr. He participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management. Mr. He is currently the chairman of the Remuneration and Appraisal Committee and a member of the Audit Committee and the Nomination Committee of our Company.

Mr. He currently serves as the chief partner and previously served as the legal representative and the head of Yunnan Weizhen Law Office (雲南唯真律師事務所). Mr. He serves as a legal counsel of several government agencies, public institutions and associations, including the Law Committee of the People's Congress in Yunnan Province (雲南省人民代表大會法制委員會), Yunnan Legal System Construction Network Center (雲南法制建設網絡中心) and Yunnan Police Officer School (雲南警官學校).

Mr. He graduated from Yunnan University (雲南大學) in Yunnan Province, the PRC, majoring in law in December 1990 and from Yunnan Normal University (雲南師範大學) in Yunnan Province, the PRC, with a master's degree in history, in June 1996.

Mr. Sin Lik Man (冼力文), aged 40, joined our Group in November 2018 and was appointed as an independent non-executive Director on 16 November 2018. Mr. Sin participates in making significant decisions and advises on corporate governance, connected transactions and various matters concerning Directors and senior management. Mr. Sin is currently a member of the Audit Committee of our Company.

Mr. Sin currently serves as the chairman of the board of directors, an executive director, chief executive officer and authorized representative of New Provenance Everlasting Holdings Limited (the Stock Exchange stock code: 2326). Mr. Sin served as the company secretary of West China Cement Limited (Stock Exchange stock code: 2233) from May 2010 to May 2012. He served as an independent non-executive director of Huili Resources (Group) Limited (Stock Exchange stock code: 1303) from December 2011 to September 2013. He was the general manager for investor relations of Integrated Waste Solutions Group Holdings Limited (formerly known as Fook Woo Group Holdings Limited) (Stock Exchange stock code: 923) from June 2012 to September 2013 and was appointed as the company secretary of the company during the period from June 2013 to September 2013.

Mr. Sin obtained a bachelor's degree in business administration with a major in accounting from the Hong Kong University of Science and Technology. He obtained a master's degree in accounting from the Curtin University of Technology, Australia. Mr. Sin is a certified public accountant and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants.

D. SUPERVISORS

Mr. Na Zhiqiang (那志強), aged 57, is the chairman of our Board of Supervisors and an employee representative Supervisor, responsible for leading the daily work of our Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Na joined our Group in February 1990. On 19 January 2011, he was appointed as the chairman of our Board of Supervisors and an employee representative Supervisor. Mr. Na has over 25 years' working experience in the wastewater treatment industry.

Mr. Na worked successively as the office manager, assistant to the plant manager, and the plant manager of Kunming No. 1 Water Purification Plant from February 1990 to December 2007. From January 2008 to June 2009, Mr. Na served as the deputy general manager of Kunming Municipal Wastewater Treatment Co. Ltd., a wholly-owned subsidiary of the Company. From June 2009 to June 2011, he served as the manager of general affairs department of Kunming Dianchi Investment.

Mr. Na graduated from the Party School of Yunnan Provincial Committee of the Chinese Communist Party (中國共產黨雲南省委員會黨校) in Yunnan Province, the PRC, in December 2004, majoring in economics and management.

Mr. Yao Jianhua (姚建華), aged 60, joined our Group in November 1995 and has been an employee representative Supervisor of our Company since 19 January 2011 in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Yao has over 28 years' working experience in the wastewater treatment industry. Since June 2005, Mr. Yao has been the general manager of Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company. Mr. Yao has also been the legal representative, executive director and general manager of Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company, since June 2005.

Prior to joining our Group, Mr. Yao served successively as a section clerk and deputy section chief of Kunming Municipal Facilities Management Cashier Office (昆明市市政設施收費管理處) from February 1988 to February 1998, and deputy chief of the Management Cashier Office of Kunming City Drainage Company Limited (昆明城市排水公司收費管理處) from February 1998 to June 1999.

Mr. Yao graduated from Chinese People's Liberation Army Kunming Army College (中國人民解放軍昆明陸軍學院) in Yunnan Province, the PRC, majoring in political theory in July 1999.

Mr. Shao Wei (邵偉), aged 38, joined our Group on 7 May 2016 and is a Supervisor of our Company in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Shao has over 10 years' working experience in the corporate finance management. Mr. Shao worked as the accounting manager of planning and financing department of Kunming DIG, responsible for corporate finance and accounting affairs. He was transferred to Kunming Development New Energy Industry Investment Operation Co., Ltd. (昆明發展新能源產業投資運營有限公司) in August 2018 and has been serving as the deputy general manager since October 2018. He has been serving as the financial controller of Kunming Zhongchuang Sanyou Kun Development New Energy Technology Co., Ltd. (昆明中創三優昆發展新能源科技有限公司) and the financial officer of Xundian County Wenlu Investment and Development Co., Ltd. (尋甸縣文旅投資開發有限公司) since March 2018 and January 2019, respectively.

Mr. Shao worked at Yunnan Yatai Electronic Information Technology Co., Ltd. (雲南亞太電子信息技術有限公司) from March 2004 to March 2009. He worked at the financial department of and served as the deputy director of legal and risk control department of Yunnan Electrical and Mechanical Equipment Corporation (雲南省機電設備總公司) from May 2010 to August 2011 and May 2012 to November 2015, respectively. He worked at Yunnan Yunrui Automobile Sales and Service Co., Ltd. (雲南雲瑞汽車銷售服務有限公司) from August 2011 to May 2012, responsible for financial management.

Mr. Shao graduated from Kunming University of Science and Technology (昆明理工大學) in Yunnan Province, the PRC, majoring in accounting computerization in July 2010. He received a certificate in accounting (intermediate level) in September 2010 and obtained the professional and technical qualification certificate of senior accountants in June 2018.

E. SENIOR MANAGEMENT

Each member of our senior management satisfies the qualification requirements under the relevant PRC laws and regulations for his or her position. The senior management is responsible for the day-to-day management of our business. The following table sets forth the information regarding our senior management:

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	51	Chairperson; Executive Director and General Manager (Chairperson of the Strategy and Investment Decision Committee)	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	July 1990	None
Mr. Mei Yili	57	Deputy General Manager	Responsible for the management of our sludge resource utilization, solid waste disposal and production safety	29 January 2015	May 1997	None
Mr. Luo Yun	40	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Yang Yang	46	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, capital operation and securities affairs, as well as leading the work of our Company's financial planning department and securities affairs department	29 January 2015	January 2015	None

Ms. Guo Yumei (郭玉梅) is an executive Director, the Chairperson of the Board, and the general manager of our Company. Please see the section headed "Profiles of Directors, Supervisors and Senior Management – A. Executive Directors" in this report for details of her biography.

Mr. Mei Yili (梅益立), aged 57, joined our Group in May 1997 and has been the deputy general manager of our Company since 29 January 2015, responsible for the management of our Company's sludge resource utilization, solid waste disposal and production safety.

From June 2005 to June 2013, Mr. Mei served as the deputy general manager, the general manager, and an executive Director of Kunming Wastewater Treatment and Operation Co. Ltd. (昆明城市污水處理運營有限責任公司). From January 2008 to June 2013, he served as the general manager and an executive director of Kunming Wastewater Treatment and Operation Co. Ltd. (昆明城市污水處理運營有限責任公司). From August 2012 to June 2013, he served as the deputy general manager of the Company. From June 2013 to January 2015, he served as the deputy chief engineer of Kunming Dianchi Investment.

Mr. Mei obtained a bachelor's degree in engineering majoring in railway cable communication from Department of Telecom and Automatic Control, Lanzhou Tiedao Institute (蘭州鐵道學院) in Gansu Province, the PRC, in January 1982.

Mr. Luo Yun (羅雲) is an executive Director and the deputy general manager of our Company. Please see the section headed "Profiles of Directors, Supervisors and Senior Management – A. Executive Directors" in this report for details of his biography.

Mr. Yang Yang (楊陽), aged 46, joined our Group in January 2015 and has been the chief financial officer of our Company since 29 January 2015, responsible for the management of the Company's finance, capital operation and securities, as well as leading the work of the Company's financial planning department and securities department. Mr. Yang has also been appointed as one of our joint company secretaries and our Board secretary in June 2016.

From January 2005 to April 2008, he served as the chief financial officer of Sichuan Province Chengdu Yunnei Power Co., Ltd. (四川省成都雲內動力有限公司). From May 2008 to May 2012, he served as the chief financial officer of Kunming Yunnei Power Co., Ltd. (昆明雲內動力股份有限公司). He served as the deputy factory director of Yunnan Gas Turbine Plant (雲南內燃機廠) from May 2012 to May 2013; a director and the deputy general manager of Yunnan Yuxi City Fuxian Lake Protection and Development Investment Co., Ltd. (雲南省玉溪市撫仙湖保護開發投資有限責任公司) from May 2013 to January 2015, respectively.

Mr. Yang graduated from Kunming Metallurgy College (昆明冶金高等專科學校) in Yunnan Province, the PRC, in June 1991, majoring in corporate management (finance and accounting). He also obtained a master's degree in business administration for senior management from Yunnan University (雲南大學) in Yunnan Province, the PRC, in June 2014.

Except as disclosed above:

(1) none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business;

(2) none of our Directors, Supervisors and senior management has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this report; and

(3) there is no other information that needs to be brought to the attention to the Shareholders under Rule 13.51(2) of the Hong Kong Listing Rules.

F. JOINT COMPANY SECRETARIES

Mr. Yang Yang (楊陽) and Mr. Chiu Ming King (趙明璟) are our joint company secretaries.

Mr. Yang Yang (楊陽) is also the chief financial officer of our Company. Please see the section headed "Profiles of Directors, Supervisors and Senior Management – E. Senior Management" in this report for details of his biography.

Mr. Chiu Ming King (趙明璟) currently serves as an executive director of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field and provides professional services to customers of various listed companies.

Mr. Chiu has been an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries ("**HKICS**") since 2003 and became a fellow member of the HKICS since September 2015. He currently serves as a member of the Membership Committee and Professional Services Panel of HKICS.

Mr. Chiu obtained a bachelor of arts from University of Toronto in Toronto, Canada, in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong in November 2003.

The Board of Directors of the Group hereby submit their report together with the audited financial statements of the Group for the year ended 31 December 2018.

A. BUSINESS REVIEW

1. Operating Environment and Prospects

The Company is a leading wastewater treatment and reclaimed water services enterprise in Yunnan Province, the PRC, and the largest wastewater treatment company in Yunnan Province, the PRC. The Company enjoys exclusive rights to provide wastewater treatment services in Kunming and certain other parts of China. The concession helps the Company maintain and consolidate its operating advantages and competitive edge in the water market in Yunnan Province. Leveraging our concession-based business model, technology, the capability of project implementation, and expansion of service regions, we have achieved stable income and steady business growth and laid a promising foundation to consolidate the water resources surrounding Yunnan Province and explore markets in other provinces to achieve cross-region operation.

2018 was an important milestone in the history of ecological civilization construction and ecological environmental protection. The country has made a series of major decision-making arrangements for strengthening ecological environment protection, upgrading ecological civilization and building a beautiful China. At the 8th National Ecological Environmental Protection Conference held in Beijing on 18 May 2018, President Xi Jinping emphasized that ecological civilization construction was a fundamental plan for the sustainable development of the Chinese nation. It was necessary to intensify efforts to promote ecological civilization and solve ecological and environmental problems. We will resolutely fight the battle against pollution and promote the construction of China's ecological civilization to a new level. In June 2018, the "Opinions of the State Council of the Communist Party of China on Strengthening Ecological Environment Protection and Resolutely Fighting Against Pollution"（中共中央國務院關於全面加強生態環境保護堅決打好污染防治攻堅戰的意見）pointed out that, by 2020, the overall quality of ecological environment would be improved and that the total discharge of major pollutants would be greatly reduced. Environmental risks would also be effectively controlled. The standard of ecological and environmental protection is compatible with the objectives of fully building a modestly prosperous society.

The "'13th Five-Year' National Urban Wastewater Treatment and Recycling Facilities Construction Plan" (《「十三五」全國城鎮污水處理及再生水利用設施建設規劃》) deemed wastewater treatment as an important part for the improvement of urban water ecology and environment and required that urban wastewater treatment facilities achieve full coverage by the end of 2020, with cities at prefecture-city level and above achieving substantially complete wastewater collection and treatment, county towns no less than 85% whereas those in the eastern regions of China aimed for 90%, and designated towns achieving 70% whereas those in central and western regions of China aimed for 50%; the wastewater treatment capacity for urban areas shall increase to 268 million cubic meters per day. Compared with eastern region in the PRC, central and western regions are less urbanized with underdeveloped infrastructure. Driven by rapid economic development and urbanization, the municipal wastewater treatment industry enjoys enormous development potential.

In addition, constitutional amendments have incorporated the requirements of new development concepts, ecological civilization construction and the construction of a beautiful China into the Constitution and established the importance of ecological civilization in the Constitution. In the reform of state institutions, it was decided to establish the Ministry of Ecology and Environment and form an integrated law enforcement team for ecological environment protection. These major deployments and initiatives have become an important source of long-term development and favorable policies for the environmental protection industry and have provided important impetus and strong guarantee for continuous prosperity of the environmental protection industry.

Wastewater treatment, reclaimed water and water supply industries will benefit from the rapidly accelerating urbanization in China and the policy dividends brought about by the development of the industry; solid waste disposal such as reuse and recycling of sludge, and comprehensive ecological and environmental treatment businesses will also gain strong driving force from the bid to build a beautiful China as an objective. The Chinese economy has shifted from high-speed development to high-quality development, enabling the environmental protection industry to become an increasingly important industry for economic development under the New Normal condition of the PRC. The Board expects that the development, scale and growth of the environmental protection industry will be further expanded and investors in the capital markets will also gradually focus more on the environmental protection industry.

2. Business

For principal business activities of the Company during the Reporting Period and the discussion and analysis thereof, please refer to the section headed "Management Discussion and Analysis – C. Business Review".

3. Key Financial Ratios

The following table shows some major financial ratios of the Group to reflect the Group's profitability, operational capabilities and solvency, for shareholders to analyze the Group's potential to grow and develop:

	As at or for the year ended 31 December	
	2018	2017
Gross profit margin(1)	**37.0%**	40.9%
Net profit margin(2)	**24.5%**	25.7%
Return on equity(3)	**9.0%**	8.5%
Return on total assets(4)	**4.7%**	5.2%
Current ratio(5)	**151.4%**	174.0%
Quick ratio(6)	**150.6%**	173.2%
Gearing ratio(7)	**27.9%**	7.9%

Notes:

(1) Equals to gross profit divided by our total revenue for the same period.
(2) Equals to profit for the year divided by our total revenue for the same period.
(3) Represents profit for the year as a percentage of total equity for the same period.
(4) Represents profit for the year as a percentage of total assets for the same period.
(5) Equals to current assets divided by current liabilities as at the end of the period.
(6) Equals to current assets less inventories divided by current liabilities as at the end of the period.
(7) Calculated as net debt divided by total capital at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period. Total capital is calculated as total equity plus net debt.

Gross profit margin and net profit margin

Please refer to "Management Discussion and Analysis – D. Financial Review – 1. Consolidated Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the Reporting Period.

Return on equity

Our return on equity increased by 0.5% during the Reporting Period compared with that of 2017, primarily reflecting that net profit increased by RMB35.6 million in 2018.

Return on total assets

Our return on total assets decreased from 5.2% in 2017 to 4.7% in 2018, primarily due to an increase in total assets by RMB1,419.2 million in 2018.

Current ratio and quick ratio

Our current ratio and quick ratio decreased from 174.0% and 173.2% as of 31 December 2017 to 151.4% and 150.6% as of 31 December 2018, respectively, primarily due to an increase in borrowings which resulted in an increase in current liabilities in 2018.

Gearing ratio

Please refer to "Management Discussion and Analysis – D. Financial Review – 4. Indebtedness" for a discussion of the factors affecting our gearing ratio during the Reporting Period.

Based on the above indicators, we believe that the Group possesses strong competitiveness and operational capabilities to create value for shareholders on an ongoing basis.

4. Laws, Regulatory and Compliance Matters

Our operations are subject to various national and local laws and regulations governing environmental protection, safety production and product quality, among others. As for our compliance measures, we aim to meet regulatory and industrial standards of the relevant central and local government authorities and our industry associations.

As of 31 December 2018, there are no material pending or threatened litigation matters or other proceedings, and the Group is not involved in any litigation or other proceedings that would materially and adversely affect our business, financial condition or results of operations.

Directors confirmed that during the Reporting Period, the Group had complied with the applicable PRC laws and regulations in all material respects, and did not have any incidents of material non-compliance, and had obtained all relevant permits, approval documents, qualifications, authorizations and approvals that are material to our business operations.

5. Major Risk Factors

The major risks that the Company's business is exposed to are as follows:

Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure in particular with respect to Hong Kong dollars ("**HKD**"). Foreign exchange risk arises from cash and cash equivalents denominated in HKD. The Group does not hedge against any fluctuation in foreign currency.

As at 31 December 2018, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, profit would have been approximately RMB3,023,480 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash raised through the listing of the Company's H shares.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing borrowings.

Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow or fair value interest-rate risk.

The interest rates and terms of repayments of borrowings are disclosed in Note 21 of the financial statements.

As at 31 December 2018, if the interest rate on floating interest rate borrowings had been higher/lower by 0.5%, the Group's net profit for each year would have changed mainly as a result of lower/higher interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Year ended:		
Net profit (decrease)/increase		
– Higher 0.5%	**(6,453)**	(433)
– Lower 0.5%	**6,453**	433

Credit risk

The carrying amounts of cash and cash equivalents, term deposits with initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

All the cash and cash equivalents and term deposits with initial term of over three months were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality.

The Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up on the disputes or amounts overdue, if any. The management is of the opinion that the risk of default by counterparties is low.

The Group considers the probability of default upon initial recognition of 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 also considers available reasonable and supportive forwarding-looking information.

(i) Trade receivables

For trade receivables, the customers are primarily local governments and PRC state-owned entities. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before 1 January 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables.

On that basis, loss allowance provision for trade receivables amounting to RMB9,654,000 was recognised as at 31 December 2018. And the expected loss rate for the remaining trade receivables as at 31 December 2018 is determined as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2018				
Expected loss rate	1.0%	6.4%	80.0%	
Gross carrying amount *(RMB'000)*	576,932	23,067	3,023	603,022
Loss allowance provision *(RMB'000)*	(5,769)	(1,467)	(2,418)	(9,654)
	571,163	21,600	605	593,368

(ii) Receivables under service concession arrangements / amounts due from customers for construction contracts / other receivables

The Group considers the probability of default upon initial recognition of 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 also considers available reasonable and supportive forwarding-looking information.

The Group uses four categories for other receivables, which reflect their credit risk and how the loss provision is determined for each of those categories.

On the basis as stated above, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts and other receivables amounted at 31 December 2018 as follows.

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Total
As at 31 December 2018				
Expected loss rate	0.5%	0.5%	1%	
Gross carrying amount *(RMB'000)*	1,141,513	312,159	63,964	1,517,636
Loss allowance provision *(RMB'000)*	(5,707)	(1,561)	(640)	(7,908)
	1,135,806	310,598	63,324	1,509,728

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk	Lifetime expected losses
Non-performing	Customers have difficulties in making full payment despite numerous reminders	Lifetime expected losses
Write-off	There is no reasonable expectation of recovery	Asset is written off

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 other receivables and adjusts for forward looking macro-economic data.

To measure the expected credit losses of these receivables, they have been grouped based on shared credit risk characteristics and the days past due. As at 31 December 2018, the expected loss rate of receivables under customer accounts of then unfulfilled service concession arrangements and construction contracts was around 0.5%, with a carrying amount of RMB1,141,513,000 and RMB312,159,000, respectively, and a provision of RMB5,707,000 and RMB1,561,000, respectively. The expected loss rate of other receivables (excluding refund tax and other non-financial assets) being performed is around 1% with a carrying amount of RMB63,964,000 and the allowance provision was RMB640,000.

Liquidity risk

Our objective is to maintain sufficient cash and sources of funding through available banking facilities and maintain flexibility in funding by maintaining committed credit lines. We had net current assets of RMB766.9 million as of 31 December 2018. With respect to our future capital commitments and other financing requirements, we had unutilized banking facilities of RMB900 million as of 31 January 2019.

To manage the liquidity risk, our management monitors rolling forecasts of our liquidity reserve (including undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. We expected to fund the future cash flow needs through cash flows generated internally from operations and borrowings from financial institutions.

Interest rate risk

Interest rate risk is a risk at which the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates is primarily related to our interest-bearing borrowings and financial lease payables.

Borrowings obtained at variable rates expose us to cash flow interest-rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not hedged against our cash flow or fair value interest rate risk.

6. Significant Subsequent Events

(a) Dividend

Pursuant to a resolution of the Board of the Directors dated 22 March 2019, the Company has proposed a dividend of RMB0.1714 per share, totalling RMB176,389,625.40. The proposal is subject to approval by the annual general meeting.

(b) Entrusted loan provided to Xindu Investment

The Company entered into an entrusted loan contract with Xindu Investment and Kunming Branch of Evergrowing Bank Co., Ltd. (恒豐銀行股份有限公司昆明分行) on 17 January 2019, pursuant to which the Company entrusted Kunming Branch of Evergrowing Bank Co., Ltd. to provide a 12-month entrusted loan of RMB400 million to Xindu Investment with an annual interest rate of 7.5%.

(c) Financing of borrowing

On 20 March 2019, the Group entered into a syndicated loan agreement with a number of banks for loan facilities amounting to US$150 million and HK$950 million respectively. The main purposes of the loans are: (i) funding the Group's working capital requirements; (ii) refinancing all or part of the Group's specific and existing liabilities. No withdrawals have been made as at the date of this report.

7. Relationship with Employees

As of 31 December 2018, we had 1,086 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of 31 December 2018:

Function	Number
Management and Administration	134
Finance	33
Research and Development	73
Quality Monitoring	178
Marketing	14
Operations	619
Construction and Maintenance	35
Total	**1,086**

We recruit our employees on the open market. Compensation for our employees includes basic wages, performance-based wages, bonuses and other staff benefits. For the years ended 31 December 2017 and 2018, our employee benefits and labor expenses amounted to approximately RMB125.0 million and RMB182.3 million, respectively.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we have in-house training programs to train our staff. New employees at our production facility receive trainings pertinent to their job duties. We also own Kunming Dianchi Water Treatment Vocational Training School, which provides more training courses for our employees.

Our labor union communicates closely with the management regarding labor matters and represents our employees' interests. During the Reporting Period, we had not experienced any interruptions to our operations caused by major labor disputes and there were no complaints or claims from our employees which had a material adverse effect on our business. Our Directors believe that we have a good relationship with our employees. During the Reporting Period, the Group had no major labor disputes which might produce significant impact on the normal business and operation of the Group.

8. Relationship with Customers

Customers of our wastewater treatment services were primarily local governments in Yunnan Province, the PRC. Customers of our reclaimed water supply services were municipal government agencies, public parks, and residential property management companies. Customers of our running water supply service were generally local residents, commercial and industrial users and other institutions located in the areas covered by our concession agreements.

Our largest customer during the Reporting Period was the Kunming Finance Bureau. The revenue attributable to our largest customer was approximately RMB555.0 million, accounting for approximately 38.8% of the total revenue of the Group. During the Reporting Period, the revenue attributable to our top five largest customers was approximately RMB950.2 million, accounting for approximately 66.5% of the total revenue of the Group.

Our revenue mainly comes from wastewater treatment service in Kunming. The wastewater treatment fee paid to us came either from government purchase, public procurement, or direct collection from individuals and entities using self-supplied water sources. Of those fees, payment from government purchase comes directly from the Kunming Finance Bureau which was our largest customer during the Reporting Period; payment from public procurement is collected by Kunming CGE Water Supply Co., Ltd., which was the running water supplier in Kunming main city area and our second largest customer during the Reporting Period, and Kunming Qingyuan Water Supply Co., Ltd., a running water supplier in Chenggong District of Kunming and our third largest customer during the Reporting Period. Specifically, end users of running water in Kunming main city area would pay a statutory wastewater treatment fee to Kunming CGE Water Supply Co., Ltd., and end users of running water in Kunming Chenggong District would pay a statutory wastewater treatment fee to Kunming Qingyuan Water Supply Co., Ltd., and any difference between the amount that we are entitled to receive under the concession agreement and the amount we actually received from public procurement and direct collection would be paid to us by the Kunming Finance Bureau through government purchase.

During the Reporting Period, we also provided management services to our Controlling Shareholder. Our other major customers included Xundian County Government and the Government of Golden Triangle Special Economic Zone in Laos. We provided wastewater treatment and construction services to Yiliang County and Golden Triangle Special Economic Zone in Laos under the relevant concession agreements.

Except for our Controlling Shareholder, all of our five largest customers are independent third parties, and none of our Directors, their associates or any Shareholder (who, to the knowledge of our Directors, owned 5% or more of our Company’s share capital) had any interest in any of our five largest customers during the Reporting Period. We did not have any major customers who were also our suppliers.

9. Relationship with Suppliers

Our principal suppliers are power suppliers who provide electricity to our facilities, construction contractors who designed and constructed our facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance replacements. We have been working with our major suppliers for a period ranging from one to more than five years.

During the Reporting Period, our largest supplier was the Kunming Power Supply Bureau of Yunnan Power Grid Co. Our purchases from our largest supplier were RMB93.0 million, accounting for approximately 10.3% of our total purchases. Our purchases from our top five suppliers were RMB370.0 million, accounting for approximately 41.1% of our total purchases.

Kunming Power Supply Bureau of Yunnan Power Grid Co. is the electric utility company in Kunming providing power for our operations. During the Reporting Period, our other major suppliers include construction contractors such as Yunnan Gongtai Project Construction Co., Ltd., Jiangxi Geo-Engineering (Group) Corporation, and Yunnan Wenbin Municipal Construction Co., Ltd. which undertake the construction portions of our projects, and raw materials providers such as Zunyi Huiheng Environmental Protection Technology Co., Ltd., Shenzhen Pufeisi Environmental Protection Technology Co., Ltd., Kunming Lude Chemicals Co., Ltd., and Kunming Nuoxiao Economic and Trade Co., Ltd. where such raw materials providers provides water treatment chemicals and others materials for the operation and maintenance of our facilities.

All of our five largest suppliers are independent third parties based in China, and none of the Directors, their associates or any Shareholder (who, to the knowledge of Directors, owned more than 5% of the Company's share capital) had any interest in any of our five largest raw material and equipment suppliers during the Reporting Period. We did not enter into any long-term agreements with our major suppliers during the Reporting Period.

Except for our utility service providers, we have established a centralized procurement policy for our cooperated suppliers. Under such policy, our subsidiaries are required to solicit bids from different suppliers, and select the suppliers based on price, quality, and timely delivery of the products. All supply contracts will be required to be reviewed and approved by the headquarters which will conduct periodic tests to check the quality of the delivered products.

We have sourced our raw materials from a few local suppliers located near Kunming in order to benefit from the economies of scale and convenient transportation, which allowed for faster and cheaper delivery of raw materials. We generally pay our suppliers within 10 to 15 days after receiving the delivery of goods, subject to internal review and approval. For our major suppliers, we often settle accounts monthly, and as of 31 December 2018, we did not have any payments in arrears.

We may from time to time cooperate with any suppliers in the market who offer similar raw materials with terms comparable to our existing suppliers so as to replace the existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers and obtain quotations from such suppliers with a view to keeping in contact with potential suppliers. In addition, in order to secure reliable supply channels and ensure the quality of our supplies, in 2015, we acquired 51% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd., a producer of wastewater treatment chemicals, from which we intend to procure a majority of our chemicals in the future. As of 31 December 2018, we had not experienced any material difficulty in obtaining any utility services, construction services, or supplies of raw materials or equipment for our business operations.

10. Environmental Policies and Performance

We must observe the national and local environmental protection laws and regulations in China, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Water Law of the PRC (《中華人民共和國水法》), the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) and Yunnan Dianchi Lake Protection Regulations (《雲南省滇池保護條例》).

We have implemented the corresponding measures in the operation of our business to ensure the compliance with the applicable requirements under the PRC environmental protection laws and regulations. As of 31 December 2018, we had not received any claims issued for failing to comply with the relevant licensing and environmental requirements.

Our PRC legal counsel has advised that as of 31 December 2018, we obtained all the material environmental licenses and certificates for each of our facilities, and we had complied in all material respects with the relevant environmental laws and regulations.

Our environmental compliance expenses were RMB2.5 million and RMB5.7 million for the years ended 31 December 2017 and 2018, respectively. To the best of our Directors' knowledge, information and belief, we do not expect our costs of compliance with environmental laws and regulations to increase significantly in the near future.

B. BUSINESS PERFORMANCE

The audited results of the Company and its subsidiaries for the year ended 31 December 2018 are stated in the Consolidated Statement of Comprehensive Income on page 130. The financial positions of the Company and its subsidiaries for the year ended 31 December 2018 are stated in the Consolidated Balance Sheet on pages 128 to 129. The consolidated cash flows of the Company and its subsidiaries for the year ended 31 December 2018 are stated in the Consolidated Cash Flow Statement on page 132.

The discussion and analysis on the Group's business performance and financial position for the current year are stated under "Management Discussion and Analysis" on pages 16 to 44 hereof.

C. SHARE CAPITAL

As of 31 December 2018, the Company had issued 1,029,111,000 shares (comprising 689,088,000 Domestic Shares and 340,023,000 H Shares) with a nominal value of RMB1 each.

D. ISSUANCE OF CORPORATE BONDS

We issued corporate bonds with par value of RMB700.0 million for a term of seven years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree with the adjustment made to the interest rates, they may choose to demand for an early redemption of corporate bonds outstanding. The proceeds from the issuance of the bonds will all be used for four projects, namely the second wastewater treatment plant in Yiliang County and the supporting pipe network project, the construction of Yunnan Water Quality Monitoring Center and the supporting wastewater treatment plant management building, the acquisition of Luolonghe and Laoyuhe Wastewater Treatment Plants (including reclaimed water plant) and the acquisition of the tenth wastewater treatment plant in Kunming City.

E. PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

F. PRE-EMPTIVE RIGHT TO ACQUIRE

In accordance with the Company Law of the PRC, other applicable laws and regulations and the provisions of the Articles of Association of the Company, there are no provisions in relation to the Company's shareholders' entitlement to the pre-emptive right to acquire.

G. RESERVE AND DISTRIBUTABLE RESERVE

The details in relation to the changes in the reserve of the Company for the current year are stated in Note 19 to the Financial Statements. Pursuant to the Company Law of the PRC, undistributed profit could be distributed as dividend after allocation is made to the statutory surplus reserve. According to the requirements of the Articles of Association, when the Company is to distribute its profit after tax in the relevant accounting year, the profit after tax shall be deemed to be the lesser of the amounts stated in the financial statements prepared in accordance with the China Accounting Standards and the International Financial Reporting Standards. For the calculation in accordance with the International Financial Reporting Standards, as at the end of 2018, the undistributed profit of the Company amounted to RMB1,312.4 million. For the calculation in accordance with the China Accounting Standards, as at the end of 2018, the undistributed profit of the Company amounted to RMB1,309.7 million.

H. PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment mainly include those property, plant and equipment that we operate in our business and are located in China, including such property leased during the operational lease for our business operating under concession.

As of 31 December 2018, our property, plant and equipment amounted to RMB3,053.6 million, with a year-on-year increase of 30.3%, mainly because we acquired Kunming No. 10 Wastewater Treatment Plant from the parent company Kunming Dianchi Investment Co. Ltd., resulting in an increase of RMB572.3 million in net fixed assets. Meanwhile, during the period, the continuous construction of the two projects, namely the water quality testing center project and the wastewater plant energy conservation and consumption reduction project incurred expenditure. Moreover, during the period, no major projects have been completed, resulting in an increase of RMB173.5 million in construction projects. During the period, we acquired three subsidiaries, Zhuji Dongda, Leshan Debei'ao and Hongyu Thermal Power, with an additional increase in fixed assets and construction in progress amounted to RMB132.6 million.

I. PROFIT DISTRIBUTION

The Board proposes to distribute a final cash dividend (the "**2018 Final Dividend**") of RMB0.1714 per share (tax inclusive) (2017: RMB0.1527 per share (tax inclusive)), totaling RMB176,389,625.40 (tax inclusive) (2017: RMB157,145,249.70 (tax inclusive)) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Tuesday, 2 July 2019. The dividend of domestic shareholders shall be declared and paid in RMB while the dividend of H shareholders shall be declared in RMB but paid in Hong Kong dollars, with the exchange rate being subject to the average exchange rate published by the People's Bank of China within one week prior to the 2018 annual general meeting (the "**2018 Annual General Meeting**") intended to be held by the Company on Friday, 21 June 2019. The expected dividend distribution date is Thursday, 8 August 2019.

The proposal regarding the distribution of 2018 Final Dividend shall be confirmed subject to the approval by shareholders at the 2018 Annual General Meeting.

According to the provisions of the "Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas H-share Holders (Non-resident Enterprise Shareholders) from Chinese Resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》)" (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, an enterprise income tax at the rate of 10% shall be levied on dividends paid in or after 2008 by Chinese resident enterprises to overseas H shareholders that are non– resident enterprises.

Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by nonresident enterprise shareholders and therefore will be subject to the withholding of the enterprise income tax. If H shareholders intend to change its shareholder status, please enquire about the relevant procedures with your agents or transferee agent. The Company will strictly comply with the law or the requirements of the relevant government authority to withhold and pay enterprise income tax and individual income tax on behalf of the relevant shareholders based on the register of members for H shares of the Company as at the dividend registration date. The Company assumes no responsibility and will not entertain any claims arising from any failure to timely determine, or inaccurate determination of, the status of the shareholders or any dispute over the arrangement of withholding and paying enterprise tax and individual income tax on behalf of such shareholders. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the H shares of the Company.

If the individual H shareholders who are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. Should the individual H shareholders are residents of the countries which had an agreed tax rate of less than 10% with China under the relevant tax treaties, the Company shall withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. If the relevant individual H shareholders wish to apply for a refund of the additional amount of tax withheld and paid, the Company can assist the relevant H shareholders to handle the application for the underlying preferential tax benefits pursuant to tax treaties. If the individual H shareholders who are residents of the countries which had an agreed tax rate of higher than 10% but lower than 20% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at the actual rate specified under relevant tax treaties. In the case that the individual holders of H shares are residents of the countries which had an agreed tax rate of 20% with China under the tax treaties, or which has not entered into any tax treaties with China, or otherwise, the Company shall withhold and pay the individual income tax on behalf of the relevant H shareholders at a rate of 20%.

To determine the list of H Shareholders attending the 2018 Annual General Meeting of the Company:

Deadline for submitting the share transfer documents:	4:30 pm on 21 May 2019 (Tuesday)
Date of closure of register of members:	From 22 May 2019 (Wednesday) to and until 21 June 2019 (Friday) (both days inclusive)
Date of Record:	21 June 2019 (Friday)
Date for convening 2018 Annual General Meeting:	21 June 2019 (Friday)

If the proposal of distribution of 2018 Final Dividend is approved by the 2018 Annual General Meeting, the shareholders will be entitled to the proposed 2018 Final Dividend:

Deadline for submitting the share transfer documents:	4:30 pm on 26 June 2019 (Wednesday)
Date of closure of register of members:	From 27 June 2019 (Thursday) to and until 2 July 2019 (Tuesday) (both days inclusive)
Record date of dividend:	2 July 2019 (Tuesday)
Expected date of dividend distribution:	8 August 2019 (Thursday)

J. BANK BORROWINGS AND OTHER BORROWINGS

The details in relation to the bank borrowings and other borrowings of the Company and its subsidiaries as of 31 December 2018 are stated in Note 21 to the Financial Statements.

K. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of Directors currently consists of seven Directors, among whom, two are executive Directors and two are non-executive Directors and three are independent non-executive Directors. The Directors have been appointed by the shareholders of the Company with a term of three years, after which they may be re-elected.

The Board of Supervisors currently consists of three Supervisors, among whom, two are employee representative Supervisors. The remaining Supervisor has been appointed by our shareholders and the current employee representative Supervisors have been appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years, after which they may be re-elected.

During the Reporting Period, the information regarding the Company's Directors and Supervisors are set out as follows:

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	51	Chairperson; Executive Director and General Manager (Chairperson of the Strategy and Investment Decision Committee, and member of the Remuneration and Appraisal Committee and the Nomination Committee)	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	July 1990(1)	None
Mr. Luo Yun	40	Executive Director and Deputy General Manager (member of the Strategy and Investment Decision Committee)	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Mr. Zeng Feng(2)	54	Non-executive Director (member of the Audit Committee)	Participates in the development of business strategies of the Company and advises on audit and internal control matters	19 January 2011 to 22 June 2018	January 2011	None
Ms. Ma Ce(3)	40	Non-executive Director	Participates in the development of business strategies of the Company	22 June 2018	June 2018	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Song Hong	55	Non-executive Director	Participates in the development of the business strategies of the Company	23 June 2016	June 2016	None
Mr. Wong Man Chung Francis(4)	54	Independent Non-executive Director (Chairman of the Audit Committee)	Participates in making significant decisions and advises on corporate governance connected transactions, and various matters concerning Directors and senior management	23 June 2016 to 18 August 2018	June 2016	None
Mr. Yin Xiaobing	45	Independent Non-executive Director (Chairman of the Audit Committee(5) and the Nomination Committee, and member of the Strategy and Investment Decision Committee and the Remuneration and Appraisal Committee)	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management	23 June 2016	June 2016	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. He Xifeng	56	Independent Non-executive Director (Chairman of the Remuneration and Appraisal Committee, and member of the Audit Committee[6] and the Nomination Committee)	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management	23 June 2016	June 2016	None
Mr. Sin Lik Man[7]	40	Independent Non-executive Director (Member of the Audit Committee)	Participation in making significant decisions and advises on corporate governance, connected transactions and various matters concerning Directors and senior management	16 November 2018	November 2018	None
Mr. Na Zhiqiang	57	Chairman of the Board of Supervisors, Employee Representative Supervisor	Responsible for leading the daily work of the Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	19 January 2011	February 1990[8]	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Yao Jianhua	60	Employee Representative Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	19 January 2011	November 1995(9)	None
Mr. Shao Wei	38	Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	7 May 2016	May 2016	None

Notes:

(1) Ms. Guo joined the Kunming Municipal Utility Tariff Bureau (昆明市政公用局排水收費處) in July 1990, which subsequently merged into the management cashier office of Kunming City Drainage Co., Ltd., a predecessor of the Group. Before the establishment of the Company in January 2011, Ms. Guo was responsible for the management of the Company through her positions in Controlling Shareholder and subsidiaries.

(2) Mr. Zeng Feng resigned from his position as a non-executive Director of the first session of the Board and a member of the Audit Committee of the Board of the Company on 26 March 2018 due to his work schedule and the intention to devote more time to other matters. His resignation came into effect on 22 June 2018.

(3) Ms. Ma Ce was appointed as a non-executive Director of the first session of the Board of the Company at the 2017 Annual General Meeting held on 22 June 2018.

(4) Mr. Wong Man Chung Francis resigned from his position as an independent non-executive Director of the first session of the Board and the chairman of the Audit Committee of the Board of the Company on 17 August 2018 due to his work schedule and the intention to devote more time to other matters. His resignation came into effect on 18 August 2018.

(5) Mr. Yin Xiaobing, an independent non-executive Director of the Company, was appointed by the Board as the chairman of the Audit Committee of the Board on 16 November 2018.

(6) Mr. He Xifeng, an independent non-executive Director of the Company, was appointed by the Board as a member of the Audit Committee of the Board on 22 June 2018.

(7) Mr. Sin Lik Man was appointed as an independent non-executive Director of the first session of the Board of the Company at 2018 First Extraordinary General Meeting held on 16 November 2018 and was appointed by the Board as a member of the Audit Committee of the Board on the same day.

(8) Mr. Na joined Kunming No. 1 Water Purification Plant in February 1990.

(9) Mr. Yao joined the management cashier office of Kunming City Drainage Co., Ltd., a predecessor of the Group, in November 1995.

During the Reporting Period, the information regarding the Company's senior management are set out as follows:

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	51	Chairperson, Executive Director and General Manager (Chairperson of the Strategy and Investment Decision Committee, and member of the Remuneration and Appraisal Committee and the Nomination Committee)	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	July 1990	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Mei Yili	57	Deputy General Manager	Responsible for the management of our sludge resource utilization, solid waste disposal and production safety	29 January 2015	May 1997	None
Mr. Luo Yun	40	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Mr. Yang Yang	46	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, capital operation and securities affairs, as well as leading the work of our Company's financial planning department and securities affairs department	29 January 2015	January 2015	None

The Company has received the confirmation of the Independence issued by the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and is of the opinion that all independent non-executive Directors are independent of the Company.

Changes to the information of Directors

During the Reporting Period, the Company's Directors, Supervisors and senior management changed as follows:

1. Mr. Zeng Feng resigned from his position as a non-executive Director of the first session of the Board and a member of the Audit Committee of the Board on 26 March 2018 due to his work schedule and the intention to devote more time to other matters. His resignation came into effect on 22 June 2018.

2. Ms. Ma Ce was appointed as a non-executive Director of the first session of the Board at the 2017 Annual General Meeting held on 22 June 2018.

3. Mr. He Xifeng, an independent non-executive Director of the Company, was appointed by the Board as a member of the Audit Committee of the Board on 22 June 2018.

4. Mr. Wong Man Chung Francis resigned from his position as an independent non-executive Director of the first session of the Board and the chairman of the Audit Committee of the Board on 17 August 2018 due to his work schedule and the intention to devote more time to other matters. His resignation came into effect on 18 August 2018.

5. Mr. Sin Lik Man was appointed as an independent non-executive Director of the first session of the Board at the First Extraordinary General Meeting of 2018 held on 16 November 2018 and was appointed by the Board as a member of the Audit Committee of the Board on the same day.

6. Mr. Yin Xiaobing, an independent non-executive Director of the Company, was appointed by the Board as the chairman of the Audit Committee of the Board on 16 November 2018.

Changes to the information of Directors during the Reporting Period are as follows:

1. Mr. Yin Xiaobing, an independent non-executive director of the Company, has been serving as a director of State-owned Assets Operation and Investment Management Company Limited (國有資產經營投資集團有限公司) in Panlong District, Kunming since February 2018. He has been serving as a director of Kunming Economic and Technological Development Zone Investment and Development Group Co. Ltd. (昆明經濟技術開發區投資開發(集團)有限公司) and an executive director and manager of Guokuangtengda (Beijing) Investment Fund Management Co., Ltd. (國礦騰達(北京)投資基金管理有限公司) since May 2018.

2. Mr. Shao Wei, the supervisor of the Company, was transferred from the planning and finance department of Kunming Development Investment Group to Kunming Development New Energy Industry Investment Operation Co., Ltd. (昆明發展新能源產業投資運營有限公司) in August 2018 and has been serving as the deputy general manager since October 2018. He has been serving as the financial controller of Kunming Zhongchuang Sanyou Kun Development New Energy Technology Co., Ltd. (昆明中創三優昆發展新能源科技有限公司) and the financial officer of Xundian County Wenlu Investment and Development Co., Ltd. (尋甸縣文旅投資開發有限公司) since March 2018 and January 2019, respectively. He also obtained the professional and technical qualification certificate of senior accountants in June 2018.

L. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors or Supervisors of the Company has entered into a service contract with the Company or any of its subsidiaries that may not be terminated by the employer within one year without the payment of compensation (other than statutory compensation).

M. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The details of the remuneration of the Company's Directors, Supervisors and senior management are stated in Note 28 to the Financial Statements. The scope of the remuneration of the senior management officers is as follows:

Range of Remuneration *(RMB'000)*	Number of Senior Management
0-500	10
500-1,000	0

N. INTERESTS OF DIRECTORS, SUPERVISORS (AND SUCH ENTITIES CONNECTED THEREWITH) IN MAJOR TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

At the end of 2018 or at any time during 2018, none of the Company's Directors, Supervisors (and such entities connected therewith) had any individual interests, directly or indirectly, in the major transactions, arrangements or contracts as established by the Company or any of its subsidiaries.

O. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETITIVE BUSINESS

During the Reporting Period, none of the Directors, Supervisors nor their associates (as defined in the Listing Rules) had any competitive interests in such business that is in direct or indirect competition with any of the Group's business.

P. INTEREST AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2018, none of the Directors, Supervisors and senior management had any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As of 31 December 2018, none of the Directors or Supervisors or their respective spouses or children below 18 was granted any right to subscribe for the shares of the Company or any of its associated corporations or to have exercised any such rights.

Q. INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

As at 31 December 2018 and to the best knowledge of the Company's Directors, the following persons (except for the Company's Directors, the chief executives or Supervisors) had some interest or short positions in the shares or underlying shares of the Company which had to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Identity/Nature of interest	Class of shares	Number of shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of shares of the Company (%)
Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司)	Beneficial Owner	Domestic Shares	660,318,635 (long position)	64.16%	95.82%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Interest of Controlled Corporation	H Shares	59,000,000 (long position)	5.73%	17.35%

Name of shareholder	Identity/Nature of interest	Class of shares	Number of shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of shares of the Company (%)
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial Owner	H Shares	39,790,000 (long position)	3.87%	11.70%
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial Owner	H Shares	64,770,000 (long position)	6.29%	19.05%
Modern Orient Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%
Beijing Enterprises Water Group Limited	Beneficial Owner	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%
Beijing Enterprises Investments Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%
Beijing Enterprises Holdings Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%
Beijing Enterprises Group Company Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%

Name of shareholder	Identity/Nature of interest	Class of shares	Number of shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of shares of the Company (%)
Beijing Enterprises Group (BVI) Company Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%
Beijing Enterprises Environmental Construction Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%

Notes:

(1) The above information disclosed is primarily based on the information provided by the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the records of the register maintained by the Company under section 336 of the SFO.

(2) Pursuant to Section 336 of the SFO, if certain conditions are fulfilled, the shareholders of the Company are required to submit a form for disclosure of interests. In the event of changes in the shareholding of the shareholders of the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, so that the latest shareholding of the shareholders of the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.

(3) The 47,754,000 shares belong to the same batch of shares.

(4) Save as disclosed above, as at 31 December 2018, the Company is not aware of any other persons (other than the Directors, Supervisors and chief executives of the Company) who have interest or short position in the shares or underlying shares of the Company that are required to be recorded in the register under the provisions of Section 336 of the SFO.

R. MANAGEMENT CONTRACTS

During the Reporting Period, the Group did not enter into any contracts and there were no existing contracts in respect of the management and administration of all or any significant portion of the business (except for such service contracts entered into with the Group's Directors, Supervisors and all employees).

S. CONNECTED TRANSACTIONS

We have entered into some transactions with the Controlling Shareholder. In accordance with Chapter 14A of the Listing Rules, such transactions have constituted the connected transactions or continuing connected transactions of the Company.

1. Connected Transaction – Asset Transfer Agreement

As disclosed by the Company in the Prospectus, on 13 April 2015, we entered into an asset transfer agreement (the "**Asset Transfer Agreement**") (as supplemented and amended by the First Supplementary Agreement executed on 30 December 2015, the Second Supplementary Agreement executed on 27 July 2016, and the Third Supplementary Agreement executed on 28 December 2017) with the Controlling Shareholder, whereby the Controlling Shareholder agreed to transfer such interests it held in Kunming No. 10 Water Purification Plant (the "**Target Assets**") to the Company.

Consideration: The consideration for the transfer of the Target Assets is initially estimated to be RMB750.17 million, subject to a final determination on the basis of the appraised value of the Target Assets as at the last day of the month when the Target Assets receive confirmation of construction completion, pass inspection and receive acceptance from the relevant authorities, as assessed by a qualified valuer and to be filed with Kunming SASAC. As evaluated by a qualified valuer (with 30 June 2017 as the benchmark date) and after filing with Kunming SASAC on 27 December 2017, the consideration for the acquisition was determined to be approximately RMB572,323,000.

Payment and Closing: The consideration will be paid by the Company to the Controlling Shareholder in two instalments:

The first instalment of RMB450 million was paid by the Company to the Controlling Shareholder in December 2015; and

The second instalment, being the remainder of the consideration, must be paid by the Company within 15 working days after the Third Supplementary Agreement comes into effect. The second instalment has deducted the Company's cost of capital of RMB44,198,300 for the first instalment of RMB450 million chargeable at a rate of 6.53% per annum and accruing from 1 July 2016 to the date of transfer of the Target Assets. The Company shall reimburse the Controlling Shareholder for its cost of capital at a rate of 6.53% per annum should it be late with the payment of the second instalment of the consideration.

Our discretionary termination option: The Company may terminate the acquisition of the Target Assets at any time, and the Controlling Shareholder must refund the first instalment to the Company within one month of the Company's termination notice.

Reasons for and benefits of the asset transfer transaction: We are acquiring Kunming No. 10 Water Purification Plant, because the inlet and outlet water quality monitor system of Kunming No. 10 Water Purification Plant has obtained the acceptance from the Kunming Environmental Protection Bureau and the plant is close to commencement of commercial operation, and the construction is substantially completed.

The Controlling Shareholder has fulfilled all conditions as of 31 December 2017, and the Company paid the remaining consideration for Kunming No. 10 Water Purification Plant on 31 January 2018. The final consideration for the acquisition was approximately RMB572,323,000.

2. Non-exempt Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement, Circular and Independent Shareholders' Approval Requirements

Entrusted Operation and Management Framework Agreement

The Company disclosed in the Prospectus that the Company entered into certain agreements with the Controlling Shareholder prior to the Listing, pursuant to which the Company provided certain operation and management services to the Controlling Shareholder in relation to wastewater treatment plants, reclaimed water supply facilities and running water facilities owned by the Controlling Shareholder. Such operation and management service, depending on the development stage of the project, typically includes operating, testing and adjusting the equipment and facilities, arranging operating personnel and experts to maintain the daily operation of such plants and ensure the effluent quality meets the relevant discharge standard, setting up management policies and operation guidelines, chemicals purchase, and sludge transportation and disposal. The Company does not provide construction service to the Controlling Shareholder. The transactions continued during the Reporting Period.

To regulate the terms and conditions under which the Company will provide such operation and management services to the Controlling Shareholder after the Listing, the Company entered into an entrusted operation and management framework agreement with the Controlling Shareholder on 25 April 2016 (the "**Entrusted Operation and Management Framework Agreement**"), for the period from 25 April 2016 to 31 December 2018, as may be amended from time to time. The Entrusted Operation and Management Framework Agreement may, upon mutual written consent between the parties, be extended for an additional term of three years, provided that such renewal is in compliance with the relevant laws and regulations, and the Listing Rules.

We provide our entrusted operation and management services in relation to the wastewater treatment plants in two main stages, which are prior to the wastewater treatment plant completing inspection and acceptance formalities and entering commercial operations, being: (i) the pre-trial operation stage; and (ii) the trial operation stage. If, after the trial operation stage, the Company chooses not to acquire such excluded business, the Company will continue to provide entrusted operation and management services to the Controlling Shareholder.

The Controlling Shareholder and the Company may enter into separate individual service agreement(s) and set out specific terms for each transaction to regulate the transactions contemplated under the Entrusted Operation and Management Framework Agreement. Such individual service agreements shall be in accordance with the terms under the Entrusted Operation and Management Framework Agreement, which shall set out the specific terms for each transaction, including the relevant facility, the services to be provided and the service fees pending to be paid. The service fee to be paid under each individual service agreement will be determined on a case-by-case basis pursuant to the following pricing policy:

(1) the fees as prescribed by the PRC government, if any;

(2) where there are no such prescribed fees, such price as may be more favorable to the Company than the then prevailing market price; and

(3) where it is not practical to refer to the market price, the price shall be based on arm's length negotiations on a cost-plus basis, allowing for reasonable profits on the costs incurred, including electricity cost, chemicals cost, sludge transportation and processing cost, overhead expense, and equipment maintenance expense. We will charge a service fee that represents a 10% margin over the costs that will be incurred in providing the operation and management services. The 10% margin over such costs was arrived at after reflecting similar transaction between other listed PRC companies and their parent companies in the utility and power industry.

Under the Entrusted Operation and Management Framework Agreement, we shall have the priority to be chosen as the provider of operation and management services by the Controlling Shareholder, provided that the terms of service and service fee offered by us are the same as or lower than that offered by a third party or third parties. The Controlling Shareholder may engage a third party or third parties for the provision of operation and management services only if we fail to satisfy the needs of the Controlling Shareholder, or if the terms of service and service fee offered by such third-party service provider are more favorable than those offered by us.

Individual Service Agreements

The Company disclosed in the Prospectus that the Company and the Controlling Shareholder have entered into the individual service agreements in relation to 11 treatment plants conducting the excluded business, which are governed by the terms of the Entrusted Operation and Management Framework Agreement. The management fees under each individual service agreement are calculated based on the actual wastewater treatment volume multiplied by the price per cubic meter, which are determined, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, depending on the historical performance of the relevant plant(s), geographical location of, and the human and technical resources allocated to such plant(s).

Annual Caps and actual transaction amount

During the Reporting Period, the annual cap for the transactions under the Entrusted Operation and Management Framework Agreement for 2018 was RMB130,000,000, with the actual transaction value being RMB67,999,000.

3. Confirmation by the independent non-executive Directors

The independent non-executive Directors have reviewed each of the aforementioned continuing connected transactions and confirmed that the transactions have been conducted:

a. in the ordinary and usual course of business of the Group;

b. either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as case may be) independent third parties; and

c. in accordance with the agreement governing the relevant transactions, on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

4. Confirmation of Auditor

The Board has received a confirmation letter in relation to above continuing connected transactions from PricewaterhouseCoopers, confirming with respect to the above continuing connected transactions as at 31 December 2018 that:

a. nothing has come to the auditors' attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for the transactions involving the provision of goods or service by the Group, nothing has come to the auditors' attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to the auditors' attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. nothing has come to the auditors' attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the annual cap.

Please refer to Note 36 to the Consolidated Financial Statements prepared under the IAS for details of the significant related party transactions. The information disclosure on connected transactions and continuing connected transactions required by the Listing Rules is set out in this chapter. Saved as disclosed above, it does not constitute connected transactions or continuing connected transactions of the Company or connected transactions or continuing connected transactions exempted from disclosure. Directors confirm that the Company has complied with the disclosure rules under Chapter 14A of the Listing Rules in relation to the above connected transactions and the related party transactions set out in Note 36 to the Consolidated Financial Statements.

T. COMPLIANCE WITH NON-COMPETITION AGREEMENT

On 25 April 2016, the Company and Kunming Dianchi Investment, the Controlling Shareholder, entered into the Non-competition Agreement, whereby Kunming Dianchi Investment will not and will procure its associated enterprises not to compete against the Group in respect of the relevant business. Kunming Dianchi Investment will also grant the Company the option to choose the new business opportunities, the option regarding the acquisition of the retained business and new business and the preemptive right to buy.

The independent non-executive Directors will be responsible for examining, reviewing, considering and determining whether to adopt and accept the new business opportunities referred to the Company by Kunming Dianchi Investment or its subsidiaries, to exercise the option for acquisition and the preemptive right to buy.

Kunming Dianchi Investment has committed that for the year 2018, it has complied with the Non-competition Agreement. The independent non-executive Directors have examined and reviewed the implementation of the Non-competition Agreement during the year of 2018 and have confirmed that Kunming Dianchi Investment was fully complied with the agreement and there were no violations of agreement.

U. RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the retirement and employee benefits plans of the Group are set out in Note 27 to the Financial Statements.

V. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Being a company listed on the Hong Kong Stock Exchange, the Company is always dedicated to maintaining the corporate governance practices at a high standard. During the Reporting Period, the Company had established various committees under the Board and formulated the relevant corporate governance system in accordance with the provisions contained in the Code of Corporate Governance.

W. PUBLIC FLOAT

Based on publicly available information and to the knowledge of the Directors, there is sufficient public float of at least 25% of the Company's issued H Shares as at the Latest Practicable Date, which is in compliance with the requirements of minimum public float of the Listing Rules.

X. DONATIONS

During the Reporting Period, the Company had made donations for charity of RMB601,889 in an aggregate.

Y. PERMITTED INDEMNITY PROVISIONS

During the Reporting Period, the Company had purchased and maintained a group liability insurance for the Directors of (including but not limited to) the Company and its "Associated Companies" (as defined for such term under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)).

Z. AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Financial Statements of the Group for the year ended 31 December 2018 prepared in accordance with the International Financial Reporting Standards in 2018.

AA. AUDITOR

PricewaterhouseCoopers is appointed as the auditor for the Financial Statements for the year ended 31 December 2018 prepared in accordance with the International Financial Reporting Standards. Such Financial Statements prepared in accordance with the International Financial Reporting Standards as stated herein have been audited by PricewaterhouseCoopers and a standard unqualified audit report has been issued.

By order of the Board
Guo Yumei
Chairperson

Kunming, the PRC

The Board of Directors of the Company has hereby submitted its Corporate Governance Report for 2018 to the shareholders.

A. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value of the shareholders and protecting their interests. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the CG Code and has set up a series of corporate governance policies. The directors of the Company believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the CG Code except for provision A.2.1 (for a detailed explanation, please refer to the section entitled "3. Chairman and President" below).

In addition, Mr. Wong Man Chung Francis, the former independent non-executive director of the Company, resigned from his position as an independent non-executive director of the Company and the chairman of the Audit Committee of the Board on 18 August 2018 due to his working schedule and the intention to devote more time to other matters. During the period from the effective date of Mr. Wong's resignation to 16 November 2018, the Company did not comply with the requirement of Rule 3.10(1) of the Listing Rules as the number of independent non-executive directors falls below the minimum requirement of three members. The Company did not comply with Rule 3.10(2) of the Listing Rules, which requires that there should be at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. In addition, the Company did not comply with Rule 3.21 of the Listing Rules, which provides that the Audit Committee shall comprise at least three members, at least one of which is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise, and the chairman of the committee must also be an independent non-executive director. The Company convened an extraordinary general meeting on 16 November 2018 to elect Mr. Sin Lik Man as an independent non-executive director and convened a Board meeting to elect Mr. Sin Lik Man as a member of the Audit Committee and Mr. Yin Xiaobing, an independent non-executive director of the Company, as the chairman of the Audit Committee. Since then, the Company has re-conformed to the above requirements of the Listing Rules.

The Board will examine and review, from time to time, the Company's corporate governance practices and operation in order to comply with the relevant provisions under the Listing Rules and to protect shareholders' interests.

B. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct for its directors, supervisors and relevant employees (has the same meaning ascribed to it under the CG Code) in respect of their dealings in the Company's securities. After making specific enquiries to all of the directors and supervisors of the Company, the directors and supervisors of the Company confirmed that they had strictly complied with the required standards as set out in the Model Code during the Reporting Period.

C. BOARD OF DIRECTORS

1. Board of Directors

a. Composition of the Board of Directors

During the Reporting Period, the Board comprises seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

During the Reporting Period, pursuant to Rules 19A.54 of the Listing Rules, we have entered into a contract with each of our Directors in respect of, among other things, compliance with relevant laws and regulations, observance of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered into, and do not propose to enter into, any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

The Company complies with the requirement under the Listing Rules that it has at least three independent non-executive Directors (representing at least one-third of the Board), among whom, at least one independent non-executive Director must have appropriate professional qualifications or accounting or related financial management expertise. Moreover, after taking into consideration the factors regarding the evaluation of the independence of independent non-executive Directors as set out in Rule 3.13 of the Listing Rules and the written confirmation of all independent non-executive Directors, the Board of Directors believe that all of its independent non-executive Directors are independent individuals.

During the Reporting Period, the composition of the Board is as follows:

Name	Age	Sex	Position	Appointment date	Term
Ms. Guo Yumei	51	Female	Chairperson; Executive Director and General Manager	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	3 years
Mr. Luo Yun	40	Male	Executive Director and Deputy General Manager	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	3 years
Ms. Ma Ce	40	Female	Non-executive Director	22 June 2018	3 years
Ms. Song Hong	55	Female	Non-executive Director	23 June 2016	3 years
Mr. Yin Xiaobing	45	Male	Independent Non-executive Director	23 June 2016	3 years
Mr. He Xifeng	56	Male	Independent Non-executive Director	23 June 2016	3 years
Mr. Sin Lik Man	40	Male	Independent Non-executive Director	16 November 2018	3 years

The biographies of the Directors and the relationships with each other are set out in the section headed “Profiles of Directors, Supervisors and Senior Management” of this annual report.

b. *Job Duties and Authority of the Board of Directors*

The Board of Directors shall be accountable to the general meeting and have the duty to report to the general meeting. The Board of Directors shall be responsible for implementing the resolutions of the general meeting. The authority of the Board of Directors are expressly stated in the Articles of Association of the Company and the major responsibility of the Board of Directors include: being responsible for convening the general meeting, implementing the resolutions of the general meeting, determining the operating plan and investment proposals of the Company, setting up the annual financial budget proposal, final accounts, profit distribution proposal, proposal for increase or decrease of capital and others, deciding on the establishment of the Company's management authority, determining the appointment or dismissal of general manager, deputy general manager and other senior management officers, formulating the basic management system of the Company and determining the establishment of the special committees of the Board of Directors.

c. *Job Duties and Authority of the Management*

The management is responsible for the specific implementation of the resolutions of the Board of Directors and the daily business management of the Company. In accordance with the Articles of Association of the Company, the major responsibility of the management includes: to propose the Company's operating plan and investment proposal, to propose the plan of establishing the internal management authority, to propose the basic management system of the Company and to formulate the Company's specific regulations.

2. Meetings of Board of Directors and General Meeting

In accordance with the provisions of the Articles of Association of the Company, meetings of the Board of Directors shall be convened at least four times a year. Meetings of the Board of Directors shall be convened by the Chairperson. A notice of regular Board meeting shall be given to all Directors at least 14 days before the meeting is convened pursuant to the requirements of the Code, and such notice shall state the date, time and venue of the meeting to be convened and the format to be adopted for such meeting. For other interim Board meetings, reasonable notices shall be delivered to all Directors.

In accordance with the provisions of the Listing Rules, in the event that the Company decides to declare, propose or pay dividends, or it shall pass at the meeting of the Board of Directors such resolutions in respect of profits or loss for any year, half-year or other periods, the Company must give a notice to the Hong Kong Stock Exchange at least seven working days before the convening of such meeting and must issue an announcement thereof.

Save for the circumstances where connected transactions are reviewed and considered at a meeting of the Board of Directors as required by the Articles of Association of the Company, meetings of the Board of Directors shall be held only if half or more of the Directors are present. Directors shall attend Board meetings in person. If a Director is unable to attend a Board meeting for some reasons, he or she may entrust another Director to attend the meeting on his or her behalf and shall specify the scope of the authorization in a power of attorney. The secretary of the Company's Board of Directors is responsible for preparing and safekeeping the minutes of the Board meetings and ensuring that the Directors can enquire about such minutes.

The Directors confirm that during the Reporting Period, the Company has strictly complied with the provisions in relation to the meetings of the Board of Directors.

During the Reporting Period, the Board of Directors convened a total of 14 meetings. The attendance of the meetings by the Directors was as follows:

Name	Position	Number of meetings attended/ should attend	Attendance Rate
Ms. Guo Yumei	Chairperson; Executive Director and General Manager	14/14	100%
Mr. Luo Yun	Executive Director and Deputy General Manager	14/14	100%
Mr. Zeng Feng(1)	Non-executive Director	5/5	100%
Ms. Ma Ce(2)	Non-executive Director	7/7	100%
Ms. Song Hong	Non-executive Director	13/14	92.86%
Mr. Wong Man Chung Francis(3)	Independent Non-executive Director	8/8	100%
Mr. Yin Xiaobing	Independent Non-executive Director	14/14	100%
Mr. He Xifeng	Independent Non-executive Director	14/14	100%
Mr. Sin Lik Man(4)	Independent Non-executive Director	2/2	100%

Notes:

(1) The resignation of Mr. Zeng Feng from his position as a non-executive Director of the Company took effect after the 2017 Annual General Meeting held on 22 June 2018, and he was not required to participate in any Board meetings held after the effective date of his resignation.

(2) Ms. Ma Ce was a non-executive Director newly appointed after an approval had been given by shareholders of the Company at the 2017 Annual General Meeting held on 22 June 2018, and she participated in all Board meetings held after her appointment.

(3) Mr. Wong Man Chung Francis resigned from his position as an independent non-executive Director of the Company on 18 August 2018 and was not required to participate in any Board meetings held after his resignation.

(4) Mr. Sin Lik Man was an independent non-executive Director newly appointed after an approval had been given by shareholders of the Company at the 2018 First Extraordinary General Meeting held on 16 November 2018, and he participated in all Board meetings held after his appointment.

During the Reporting Period, one annual general meeting and one extraordinary general meeting of the Company were held. The attendance of the Directors was as follows:

Name	Position	Number of meetings attended/ should attend	Attendance rate
Ms. Guo Yumei	Chairperson; Executive Director and General Manager	2/2	100%
Mr. Luo Yun	Executive Director and Deputy General Manager	2/2	100%
Mr. Zeng Feng(1)	Non-executive Director	1/1	100%
Ms. Ma Ce(2)	Non-executive Director	1/1	100%
Ms. Song Hong	Non-executive Director	2/2	100%
Mr. Wong Man Chung Francis(3)	Independent non-executive Director	1/1	100%
Mr. Yin Xiaobing	Independent non-executive Director	2/2	100%
Mr. He Xifeng	Independent non-executive Director	2/2	100%
Mr. Sin Lik Man(4)	Independent non-executive Director	0/0	N/A

Notes:

(1) The resignation of Mr. Zeng Feng from his position as a non-executive Director of the Company took effect after the 2017 Annual general Meeting held on 22 June 2018, and he was not required to participate in the 2018 First Extraordinary General Meeting held on 16 November 2018.

(2) Ms. Ma Ce was a non-executive Director newly appointed after an approval had been given by shareholders of the Company at the 2017 Annual General Meeting held on 22 June 2018, and she was not required to attend the annual general meeting.

(3) Mr. Wong Man Chung Francis resigned from his position as an independent non-executive Director of the Company on 18 August 2018 and was not required to participate in the 2018 First Extraordinary General Meeting held on 16 November 2018.

(4) Mr. Sin Lik Man was an independent non-executive Director newly appointed after an approval had been given by shareholders of the Company at the 2018 First Extraordinary General Meeting held on 16 November 2018. After the appointment, the Company did not convene any general meeting.

3. Chairperson and President

Ms. Guo Yumei has been appointed as the Chairperson and President of the Company. In accordance with provision A.2.1 of the CG Code, the roles of chairperson and chief executive should be separated and should not be held by the same person. The Board has noticed that there was some deviation from Rule A.2.1 of the provisions of the CG Code. However, given the development of the Group and the rich experience of Ms. Guo has in the industry and her many years of services at the Group, the Board believes, that Ms. Guo concurrently acting as the Chairperson and President will help implement the Group's business strategies and enhance the operating efficiency. In addition, the Board comprises 3 independent non-executive directors and 2 non-executive directors, enabling the interest of the Company's shareholders to be represented sufficiently and fairly under the supervision by the Board.

4. Appointment of Directors

In accordance with the provisions of the Articles of Association of the Company, the Directors shall be elected and appointed at the general meeting for a term of three years, after which they may be re-elected. The Company has formulated the procedures of such appointment. The Nomination Committee shall be responsible for nominating new Directors and then submitting such nomination to the Board of Directors for review and consideration. All newly nominated Directors must be elected and approved at the general meeting.

5. Remuneration of Directors

The Directors of the Company may receive basic salary, stock options, non-monetary advantage, right to pension, bonuses, and compensations (including such compensation provided due to the loss or termination of their job duties or appointment).

The independent non-executive Directors of the Company receive their remuneration from the Company, whereby the Company shall pay Mr. Yin Xiaobing, Mr. He Xifeng and Mr. Sin Lik Man an amount of RMB150,000, RMB150,000 and RMB220,000, respectively on a yearly basis. Travel and accommodation expenses incurred for the Company's Board meetings, general meetings and the relevant activities organized by the Board of Directors attended by the independent non-executive Directors shall be borne by the Company. As for those non-executive Directors who do not take any management job duties in the Company, they do not receive their remuneration from the Company. The executive Directors who undertake management job duties in the Company shall receive their remuneration from the Company. The remuneration of all executive Directors shall be determined pursuant to the standards as provided in the "Measures Regarding Remuneration Management" of the Company, and in particular, such remuneration shall include the basic salary, performance bonus and other benefits. The basic salary is determined based on the position held by an executive Director in the Company and the performance bonus is determined subject to the Company's operating results. Other benefits shall include the statutory pension, medical and housing provident funds. Details in relation to the remuneration of Directors are provided in Note 28 to the Financial Statements.

6. Training of Directors

The newly appointed Directors have all received comprehensive, official and customized induction training upon their first appointments, so that they can have adequate understanding of the Company's business and operation and be fully aware of their responsibilities and duties under the Listing Rules and relevant regulatory rules.

For the year ended 31 December 2018, the Directors have participated in the following training:

Director	Type of training	Duration of training
Ms. Guo Yumei *(Chairperson)*	A, B	20
Mr. Luo Yun	A, B	20
Ms. Ma Ce	A, B	20
Ms. Song Hong	A, B	20
Mr. Yin Xiaobing	A, B	20
Mr. He Xifeng	A, B	20
Mr. Sin Lik Man	A, B	15

A: Reading materials related to continuous compliance responsibilities, corporate governance and other relevant topics

B: Reading newspapers, periodicals, newsletters of the Company and updates on economy, general business and water industry, or materials about Directors' responsibilities and duties

7. Joint Company Secretaries and their training

Mr. Yang Yang (楊 陽) and Mr. Chiu Ming King (趙 明 璟) act as the Joint Company Secretaries and are responsible for facilitating the procedures of the Board of Directors and facilitating the communication between the Directors and between the Directors and shareholders and the management level. Mr. Chiu Ming King has his main contact with the Company as Mr. Yang Yang and Mr. Yang Yang shall report significant events to the Chairperson. The profiles of the Joint Company Secretaries are stated in the section headed "Profiles of Directors, Supervisors and Senior Management" in this Report. During the Reporting Period, the Joint Company Secretaries received professional training for no less than 15 hours to update their technique and knowledge.

D. COMMITTEES UNDER THE BOARD OF DIRECTORS

Our Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, regulations, the Articles of Association of the Company and certain rules and regulations, we have formed four committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, and the Strategy and Investment Decision Committee, and have expressly stated its terms of reference for the committees in writing.

1. Audit Committee

The Audit Committee of the Company consists of three members. During the Reporting Period, such members include Mr. Yin Xiaobing (尹曉冰) (an independent non-executive Director, acting as the chairman of the Audit Committee since 16 November 2018), Mr. He Xifeng (何錫鋒) (an independent non-executive Director), Mr. Sin Lik Man (冼力文) (an independent non-executive Director), Mr. Wong Man Chung Francis (黃文宗) (the chairman of the Audit Committee, independent non-executive Director, resigned on 18 August 2018) and Mr. Zeng Feng (曾鋒) (a non-executive Director, resigned with effect from 22 June 2018).

The principal responsibilities of the Audit Committee are to review and supervise the Company's financial reporting process, financial control, internal control and risk management systems, to supervise the Company's internal audit system and perform corporate governance duties, and to oversee the audit process and to recommend the engagement or replacement of external auditors. The Audit Committee is also responsible for the communications between the internal and the external auditors and performing other duties and responsibilities as assigned by the Board.

As for the selection, appointment and dismissal of external auditors or resignation of auditors, the Board and the Audit Committee have reached a consensus.

During the Reporting Period, the Audit Committee held 2 meetings, the details of which are as follows:

On 26 March 2018, a meeting of the Audit Committee was held, at which 10 proposals including the Proposal on Financial Statements Reviewed by External Auditors in the Previous Year and the Proposal on Profit Distribution Plan were considered and unanimously approved by all members of the Audit Committee.

On 17 August 2018, a meeting of the Audit Committee was held, at which 7 proposals including the Proposal on 2018 Interim Results Report were considered and unanimously approved by all members of the Audit Committee.

During the Reporting Period, the attendance of the meetings by the committee members was as follows:

Name	Number of meetings attended/ should attend	Attendance Rate
Mr. Yin Xiaobing *(serving as the Chairman of the committee since 16 November 2018)*	2/2	100%
Mr. He Xifeng *(since 22 June 2018)*	2/2	100%
Mr. Wong Man Chung Francis *(Chairman of the committee, resigned on 18 August 2018)*	2/2	100%
Mr. Zeng Feng *(resigned since 22 June 2018)*	1/1	100%

2. Remuneration and Appraisal Committee

During the Reporting Period, the Remuneration and Appraisal Committee of the Company consists of three members, namely Mr. He Xifeng (何錫鋒), Mr. Yin Xiaobing (尹曉冰) and Ms. Guo Yumei (郭玉梅). Except for Ms. Guo Yumei, who is an executive Director, all other members are independent non-executive Directors. Mr. He Xifeng (何錫鋒) is the chairman of the Remuneration and Appraisal Committee.

The principal responsibilities of the Remuneration and Appraisal Committee are to formulate and review the policy and structure of the remuneration for the Directors and senior management, to establish the performance evaluation standards, procedures and system, to annually evaluate the performance of the Directors and senior management, to make corresponding recommendations to the Board, and to perform other duties and responsibilities as assigned by the Board.

During the Reporting Period, the Remuneration and Appraisal Committee held 2 meetings, the details of which are as follows:

On 26 March 2018, a meeting of the Remuneration and Appraisal Committee was held in the Company. The meeting considered and evaluated 1 proposal of the Company's operation and management team's salary for the year of 2017 which was unanimously approved by all members of the Remuneration and Appraisal Committee.

On 27 September 2018, a meeting of the Remuneration and Appraisal Committee was held in the Company. The meeting considered 1 proposal of determining the salary of an independent non-executive director which was unanimously approved by all members of the Remuneration and Appraisal Committee.

During the Reporting Period, the attendance of the meetings by the committee members was as follows:

Name	Number of meetings attended/ should attend	Attendance Rate
Mr. He Xifeng *(Chairman)*	2/2	100%
Mr. Yin Xiaobing	2/2	100%
Ms. Guo Yumei	2/2	100%

3. Nomination Committee

During the Reporting Period, the Nomination Committee of the Company consists of three members, namely Mr. Yin Xiaobing (尹曉冰), Ms. Guo Yumei (郭玉梅) and Mr. He Xifeng (何錫鋒). Except for Ms. Guo Yumei, who is an executive Director, all other members are independent non-executive Directors. Mr. Yin Xiaobing (尹曉冰) is the chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are to make recommendations to our Board on the scale, structure, and composition of the Board and on the nomination of Directors, to review the Director and senior management candidates, to review the independency of the independent non-executive Directors, and to perform other duties and responsibilities as assigned by the Board.

During the Reporting Period, the Nomination Committee held 3 meetings, the details of which are as follows:

On 26 March 2018, a meeting of the Nomination Committee was held in the Company. The meeting considered four proposals including reviewing the structure and composition of members of the Board of the Company and changing a director which were unanimously approved by all members of the Nomination Committee.

On 27 September 2018, a meeting of the Nomination Committee was held in the Company. The meeting considered 1 proposal of adding an independent non-executive director which was unanimously approved by all members of the Nomination Committee.

On 16 November 2018, a meeting of the Nomination Committee was held in the Company. The meeting considered two proposals of election of one member of the Audit Committee and election of the chairman of the Audit Committee which were unanimously approved by all members of the Nomination Committee.

During the Reporting Period, the attendance of the meetings by the committee members was as follows:

Name	Number of meetings attended/ should attend	Attendance Rate
Mr. Yin Xiaobing *(Chairman)*	3/3	100%
Ms. Guo Yumei	3/3	100%
Mr. He Xifeng	3/3	100%

4. Strategy and Investment Decision Committee

During the Reporting Period, the Strategy and Investment Decision Committee of the Company consists of three members, namely Ms. Guo Yumei (郭玉梅), Mr. Luo Yun (羅雲) and Mr. Yin Xiaobing (尹曉冰). Except for Mr. Yin Xiaobing, who is an independent non-executive Director, all other members are executive Directors. Ms. Guo Yumei (郭玉梅) is the chairperson of the Strategy and Investment Decision Committee.

The principal responsibilities of the Strategy and Investment Decision Committee are to conduct studies and make recommendations to the Board on the long-term development plan and strategies, the significant investment or financing plans of the Company, and significant capital investment for operation projects, to review the implementation of those investment and financing plans, and to perform other duties and responsibilities as assigned by the Board.

During the Reporting Period, the Strategy and Investment Decision Committee held 0 meeting, but each committee member kept close relationship and good communication to ensure that the work is progressing smoothly.

E. NOMINATION POLICY OF DIRECTORS, BOARD DIVERSITY POLICY AND DIVERSITY ANALYSIS

According to the Company's Articles of Association and the relevant nomination system of directors, the Nomination Committee provides consultation to the Board with respect to the nomination of Directors. It will first consider and determine the candidates for nomination, then make recommendations to the Board. The Board will decide whether to propose such candidate to the general meeting for election. In the course of selecting candidates of new directors, the Nomination Committee and the Board will consider the cultural, educational background and professional experience, etc. of relevant parties in accordance with the "Diversity Policy of Members of The Board of Directors". They will also consider the business operation models. The final decision will be based on the nominated candidates who will bring about benefits and contributions to the Board. Details of the appointment of directors are set out in the section headed "C. BOARD OF DIRECTORS – 4. Appointment of Directors" above.

For purposes of reaching a sustainable balanced development, the Company has regarded the increasing diversity of the members of the Board of Directors as the key element that supports the Company to achieve its strategic objective and to maintain the sustainable development.

The Company has formulated the "Diversity Policy of Members of The Board of Directors", the contents of which include:

- When the Company is establishing the composition of the members of the Board of Directors, it will take into consideration from different aspects and achieve the diversity of the member of the Board of Directors. Such aspects shall include but is not limited to sex, age, cultural and educational background, races, professional experience, technique, knowledge and term of service. All the appointment for the members of the Board of Directors are made on the principle of recruiting meritocratic professional. Meanwhile, the candidates are selected based on objective conditions, fully taking into consideration the benefits brought by the diversity of members of the Board of Directors.

- The Company's selection of candidates will be subject to a series of standards regarding diversity, including but not limited to sex, age, cultural and educational background, races, professional experience, technique, knowledge and term of service. The final decision will be made based on the strength of the candidates and such contribution they can make to the Board of Directors.

The Nomination Committee has selected new Directors pursuant to the requirements of the "Diversity Policy of Members of the Board of Directors", with a view to achieving the objective of diversifying the members of the Board of Directors.

During the Reporting Period, an analysis of diversification of the Board of Directors is as follows. The composition of the Board of Directors, the background of its members and procedures of selection of new Directors during the Reporting Period are in line with the requirements of the "Diversity Policy of Members of the Board of Directors".

Item	Category	Number	Percentage in the members of the Board of Directors
Gender	Male	4	57%
	Female	3	43%
Age	40 to 50	4	57%
	51 to 60	3	43%
Post	Executive Director	2	29%
	Non-executive Director	2	29%
	Independent non-executive Director	3	43%
Length of service as Board members	3 years or less	6	86%
	4 years or more	1	14%
Experience in water treatment industry	20 years or less	6	86%
	21 years or more	1	14%
Major or expertise	Engineering	2	29%
	Finance and accounting	4	57%
	Law	1	14%

F. RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of risk management and internal control systems of the Group. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against any misstatement or loss that is not significant. Internal control and risk management systems are reviewed annually to ensure its continuous effectiveness.

We have established a set of consolidated risk management policies and measures for purposes of identifying, evaluating and managing the operating risk. Our Audit Committee is responsible for monitoring the Group's financial control, internal control procedures and risk management system. The head of the internal audit department is responsible for making periodic report of the results and, where necessary, discussing with external legal advisors about any possible issues so as to ensure that we do not violate the relevant regulatory provisions or applicable laws.

For purposes of such various risks we are exposed to during our operation, we focus on the strengthening of the internal control and risk management systems. We have implemented many policies and measures in order to ensure that effective risk management is conducted in respect of the operation, financial reports and records, fund management and the compliance with applicable laws and regulations of Hong Kong and China.

The major characteristics of the risk management and internal control systems are: the Company has consolidated the risk management and internal control systems and has formulated the systematic framework from the level of the Company and business. Under such framework, a mutual mapping between key risk points and control points is established by setting up risk control matrix in order to implement the control measures in relation to risk identification, evaluation and addressing in various business processes within the enterprise. As a result, risk management and internal control can be merged in organic manner, significantly enhancing the enterprise's capability in risk precaution and control and its control means and creating practicable effect on the corporate management. The Company shall classify the internal control system into three layers, namely the basic management system, specific regulations/ management measures and detailed rules for implementation according to the defined subject matter, the level involved and the restriction scope. The effectiveness of various rules and regulations shall be evaluated each year and annual construction plan of the system shall be devised in accordance with the evaluation results and the regulatory requirements and based on the business need of the Company and such rules and regulations that need to be established, amended and abolished shall be expressly provided. Meanwhile, by referencing to the framework requirements of the internal control elements and the logic relationship between Company's systems, the Company's rules and regulations shall be classified pursuant to the business types, for purposes of establishing procedures for and standardizing the management of the Company's rules and regulations. As a result, the compliant operation and strategic development of the Company can be safeguarded. The Company highly values the dynamic monitoring of risk management. Based on the changes of the internal and external environments of the Company, risk information so collected is to be analyzed; the impact created on the Company's operating process by various risks and the possibility of the loss caused by such various risks are to be quantified; such risks in relation to achieving the goal for internal control during operating activities are timely identified and analyzed by systems; and the Company's risk tolerance and risk addressing strategies are reasonably confirmed. The Company seriously concerns about the management and control of major risks, focus on the major risks evaluated, refines the solution thereof; analyzes in depth the root cause for the generation of the major risks, causes of risks, possible impacts and addressing strategies to be adopted; and formulates practicable measures for risk management and control.

The procedures by which the Company examines the effectiveness of the risk management and internal supervision system shall include: to formulate an appraisal proposal, to establish appraisal team, to implement on-site test, to identify and control defects, to summarize and compile the appraisal results, and to prepare an appraisal report. The Company shall authorize the audit department to be responsible for the specific organization and implementation of the appraisal on internal control. The Company shall put forward some confirmed opinions after conducting comprehensive analysis on the defects in internal control. Then, the Company shall make a final confirmation after it has carried out the review pursuant to the stipulated authority and procedures and shall classify such defects as material defects, important defects and general defects based on the impact produced by such defects. Such confirmed opinions shall be proposed in form of a written report to report to the Board of Directors and the Operating Meeting. Material defects shall be finally confirmed by the Board of Directors. The Company shall timely adopt the corresponding strategies with respect to the material defects and important defects, and practicably control risks within the range that the Company can undertake. In addition, the Company shall pursue the liabilities of the relevant department or personnel.

In addition, the Company places a great emphasis on inside information management. For the purposes of strengthening the confidentiality of inside information, maintaining the fairness of information disclosure and protecting the legal interests and rights of the general investors, the Company's information disclosure system and mechanism is established in accordance with the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Securities Law of the People 's Republic of China (《中華人民共和國證券法》), the Information Disclosure System of Kunming Dianchi Water Treatment Co., Ltd. (《昆明滇池水務股份有限公司信息披露制度》), the Internal Reporting System of Material Information of Kunming Dianchi Water Treatment Co., Ltd. (《昆明滇池水務股份有限公司重大信息內部報告制度》), the Listing Rules and domestic or foreign laws, regulations and other regulatory documents. During the Reporting Period, the Company carried out information disclosure strictly pursuant to the regulatory requirements and expressly stipulated that the Board of Directors shall manage in a uniform manner and be responsible for the Company's information disclosure. The Chairperson is the first officer in charge of the Company's information disclosure and the Company Secretary is the main person in charge of the Company's information disclosure. Moreover, detailed provisions in respect of the managerial responsibility of the Directors, Supervisors, senior management and officers in charge of branches or subsidiaries shall be made.

Our Board of Directors and the senior management are accountable for the overall responsibility in respect of monitoring the implementation of internal control and risk management procedures and other measures in the Group. The Company's risk management and internal control systems aim at managing but not eliminating the risk for not being able to achieve the business objective. Moreover, only reasonable but not absolute guarantee is made for misrepresentation or loss that are not significant. The Board of Directors will conduct an examination on the Company's risk management and internal control systems once a year. The Board of Directors states that it has reviewed and examined the Company's risk management and internal control systems as of 31 December 2018. The Board of Directors confirms that it has examined the effectiveness of the Company's risk management and internal control systems. The Board believes that the Company's risk management and internal control systems are effective and sufficient. The Company's risk management and internal control systems can effectively guard against such risks existing in the operation.

We have also appointed and reappointed external professional advisors (including the auditor, legal or other advisors) for provision of professional advice on how we observe all applicable related laws and regulations.

G. DIVIDEND POLICY

According to the Company Law in China and the Articles of Association of the Company, the Company can only pay dividends from the after-tax profits after making the following distribution:

- Compensation for accumulated losses (if any);
- Allocating the equivalent of 10% of after-tax profits to the statutory reserve; and
- The amount (if any) approved by the shareholders at the general meeting will be allocated to arbitrary provident fund.

After the statutory reserve fund has reached and maintained at 50% or above the registered capital, no further transfer is required. The Company's distributable profit in relation to the above transfer and the Company's dividend distribution are expected to be paid by after-tax profit determined in accordance with the Generally Accepted Accounting Principles in China or IFRS, whichever is lower.

All shareholders of the Company are entitled the same right to receive dividends and distributions distributed by shares or cash.

The proposal of payment and the amounts of dividends will be made at the discretion of the Board and will depend on the Company's general business condition and strategies, cash flows, financial results and capital requirements, the interests of the Company's shareholders, taxation conditions, statutory and regulatory restrictions, and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of our shareholders in a shareholders' general meeting.

H. THE DIRECTORS' LIABILITY TO THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability of its continuous operation of business. The Board of Directors has confirmed to undertake the liabilities for the preparation of the Group's financial statements as of 31 December 2018.

I. REMUNERATION OF AUDITOR

Auditors engaged by the Company shall be nominated by the Board and approved by the general meeting of shareholders. Their remuneration is determined by the Board as authorized by the general meeting of shareholders. To ensure better alignment between the Company's audit works in the PRC and overseas, the Company re-appointed PricewaterhouseCoopers as its international auditor and engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) to handle its PRC domestic audit work in 2018. During the year, the Group paid RMB3.7 million to auditors for their audit service for the Group, and paid RMB0 million for their non-audit service.

J. SHAREHOLDERS' RIGHTS

1. Shareholders have the right to initiate and convene the extraordinary general meeting

In accordance with the provisions of the Articles of Association of the Company, the shareholders shall be entitled to the following right: A shareholder solely holding or shareholders aggregately holding more than ten percent (inclusive) of shares having voting powers in the Company may sign a written request to suggest the Board of Directors for convening an extraordinary shareholders' general meeting.

2. Shareholders have the right to submit an interim draft resolution to the Company at the general meeting

It is also provided in the Articles of Association of the Company that when the Company is to convene a general meeting, a shareholder holding more than three percent (inclusive) of shares having voting powers in the Company shall have the right to submit an interim draft resolution in writing to the Company. Being located at the Company's registered office in China and the Company's headquarters, the Office of the Board of Directors shall be responsible for handling with such draft resolution submitted by such shareholder. Should some items in such interim draft resolution fall into the scope of the job duties of the general meeting, the Company should have such items included in the agenda of such meeting.

3. Shareholders are entitled to the inquiry right

As for the inquiry required to be concerned by the Board of Directors, the shareholders may send an email to the email address at dshbgs@kmdcsw.com for the Board of Directors or a letter to the following address. The Company will timely process all the inquiries in an appropriate manner:

No. 7 Wastewater Treatment Plant
Dianchi Tourist Resort
Kunming City, Yunnan Province, the PRC (For the attention of the Board)

K. COMMUNICATIONS WITH SHAREHOLDERS

The Company believes that effective communications with shareholders is essential to enhancement of investors relation and enhancement of investors' understanding of the Company's business and strategies. The Company highly values shareholders' opinions and suggestions, and actively organizes and conducts various activities related to investors relation in order to keep the communications with shareholders, and to timely satisfy the reasonable demands of all shareholders.

L. INVESTORS RELATION

The Company believes that good investors relation may help build more stable and consolidated shareholder base. As a result, the Company has been and will be dedicated to maintaining a higher degree of transparency, observing the Listing Rules and timely providing investors with comprehensive and accurate information, and constantly performing the obligation of the listed company on information disclosure.

The Company will strengthen its communications with investors by organizing roadshows, participating in investor summits, making voluntary information disclosure and others so as to enable investors to understand the corporate strategy and business operation of the Company.

The Company will continue to maintain open-up and effective investors communication policies for the purposes of timely providing investors with the latest information on the Company's business subject to the compliance with the relevant regulatory provisions.

M. ARTICLES OF ASSOCIATION

During the Reporting Period, in order to further enhance the Party construction work in state-owned enterprises and in view of the issue of H Shares and actual situation of the Company, the Company revised some terms of and incorporated additional terms in the Company's Articles of Association according to the most recent spirit of the 19th National Congress of the Chinese Communist Party. For details, please refer to the circular of the Company dated 27 April 2018 and the announcement of the Company dated 22 June 2018. Save for the above amendments, there were no other amendments made to the Company's Articles of Association during the Reporting Period.

N. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Company has complied with the provisions of "Comply or Explain" ("不遵守就解釋") stated in the Environmental, Social and Governance ("ESG") Reporting Guide. The Company will separately issue the Environmental, Social and Governance Report.

I. COMPOSITION OF THE BOARD OF SUPERVISORS

As of 31 December 2018, the Board of Supervisors of the Company consists of three Supervisors, of whom two are employee representative Supervisors. The remaining Supervisor has been appointed by our shareholders and the current employee representative Supervisors have been appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years after which they may be re-elected.

The composition of the Board of Supervisors of the Company is as follows:

Name	Position	Appointment date
Na Zhiqiang (那志強)	Chairman of the Board of Supervisors; Employee Representative Supervisor	19 January 2011
Yao Jianhua (姚建華)	Employee Representative Supervisor	19 January 2011
Shao Wei (邵偉)	Supervisor	7 May 2016

II MEETING OF THE BOARD OF SUPERVISORS

In 2018, the Board of Supervisors of the Company convened 13 meetings of the Board of Supervisors in total. All Supervisors were present. The details are as follows:

On 1 February 2018, the Company convened a meeting of the Board of Supervisors to consider and approve the proposal on the plan to invest in the flood storage and flood control construction projects of Shipen Temple (Including Laoqingshan) in Wuhua District, the proposal on the first phase construction project to invest in the improvement of water quality and ecological restoration of old and new rivers of transportation of grain, the proposal on Renewal of Evergrowing Bank's credit facilities of RMB100 million, the proposal on opening a general bank account of Shanghai Pudong Development Bank, the proposal on activating Bank of Communications' additional credit facilities of RMB170 million, the proposal on paying RMB44.5356 million's borrowings to Zhuji Dongdaciwu Wastewater Co., Ltd, the proposal on Leshan Debei'ao Water Limited borrowing RMB58.5453 million from Kunming Dianchi Water Treatment Co., Ltd., the proposal on establishing Kunming Dianchi Water Treatment Solid Waste Disposal and Resources Utilization Co., Ltd., the proposal on establishing Yiliang Dianchi Water Co., Ltd., the proposal on appointing management personnel to Zhuji Dongdaciwu Wastewater Co., Ltd., the proposal on donation to all relocated households in Haitou Village, Water and Seawater Protection Area, Xundian County, the proposal on Kunming Dianchi Investment Co. Ltd. to entrust Kunming Dianchi Water Treatment Co., Ltd. to manage the sludge disposal and relocation project of Kunming Wastewater Treatment Plant (Fumin Sludge Disposal Plant), the proposal on Kunming Dianchi Investment Co. Ltd. to entrust Kunming Dianchi Water Treatment Co., Ltd. to manage the sludge treatment and resources utilization project of Kunming and surrounding lakes' Wastewater Treatment Plant (Fumin Sludge Composting Plant), the proposal on Kunming Dianchi Investment Co., Ltd. to entrust Kunming Dianchi Water Treatment Co., Ltd. to manage the sludge disposal and relocation project of Kunming Wastewater Treatment Plant of supporting water treatment phase one Project (Fumin Wastewater Treatment Plant), the proposal on opening a time deposit account and a general savings account at Bank of Communications Hong Kong Branch and Industrial Bank Hong Kong Branch respectively and the proposal on Renewal of China Merchants Bank's credit facilities of RMB120 million.

On 14 March 2018, the Company convened a meeting of the Board of Supervisors to consider and approve the proposal on activating Minsheng Bank's credit facilities of RMB300 million, the proposal on launching financial leasing business of RMB600 million with Bank of Communications Financial Leasing, the proposal on adjusting the financing costs of credit facilities of China CITIC Bank, the proposal on providing RMB300 million entrusted loan to Kunming Industrial Development and Investment Co., Ltd. and the proposal on Kunming First Water Purification Plant scrapping fixed assets due to upgrade and renovation.

On 26 March 2018, the Company convened a meeting of the Board of Supervisors to consider and approve the proposal on the independent auditor's report (audit report) and audited consolidated financial statements of the Group as of 31 December 2017, the proposal on 2017 Risk Control and Internal Control Results Report, the proposal on 2017 annual report, the proposal on 2017 Annual Results Announcement, the proposal on 2017 annual profit distribution plan, the proposal on General Mandate to issue shares, the proposal on re-appointment of domestic and overseas audit institutions for 2018, the proposal on amending the Company's Articles of Association, the proposal on the change of a director, the proposal on the circular of Annual General Meeting, proxy form and reply slip to shareholders, the proposal on determination of the date, time and venue of the 2017 Annual General Meeting, the proposal on review and signature of the management statement (explanation letter) of the financial statements for the year ended 31 December 2017, the proposal on nominating and authorizing two executive directors to sign 2017 financial statements, the proposal on the company's 2018 financial budget, the proposal on the company's 2017 financial accounts, the proposal on adjusting the financing costs of Industrial Bank, the proposal on adjusting the financing plan of Bank of Communications Financial Leasing, the proposal on providing RMB300 million entrusted loan to Kunming Bus, the proposal on the project to invest in green irrigation system for Longquan Road, Phuket Road, Wuhua District, the proposal on assessment and fulfillment of the Company's operation and management team's salary of 2017, the proposal on renewal of 2018 director and senior executive liability insurance and the proposal on selection and employment of institutions of the company's internal project agency services in 2017.

On 24 April 2018, the Company convened a meeting of the Board of Supervisors to consider and approve the proposal on launching RMB100 million finance lease business of Yuntou leasing, the proposal on adjusting the financing cost of Minsheng Bank's credit facilities, the proposal on increasing capital to Kunming Dianchi Water Treatment Training School, the proposal on printing and distributing the classification management measures for subsidiaries of Kunming Dianchi Water Treatment Co., Ltd., the proposal on adjusting the structure of relevant departments at the headquarters, the proposal on appointment by the department of human resources of three colleagues, including Liu Bo and the proposal on donations to poor households in Xundian County.

On 22 May 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on activating overseas financing projects, the proposal on increasing the registered capital of Dianchi Water (Laos) Sole Proprietorship Co., Ltd., the proposal on increasing the registered capital of Kunming Dianchi Logistics Co., Ltd., the proposal on opening a general deposit account in Hang Seng Bank and the proposal on Dianchi Investment Company to entrust Dianchi Water Treatment's "water quality purification plant super-limited phosphorus removal upgrade and renovation testing demonstration project--the first and ninth water purification plant subprojects" for trial operation and Dianchi Water Treatment to entrust Kunming Kejingyuan Environmental Protection Technology Co., Ltd. for trial operation and entering into an entrusted and trial operation management contract.

On 22 June 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on by-election of members of the audit committee, the proposal on appointment of PricewaterhouseCoopers as the Company's 2018 domestic and overseas auditors (audit institution), the proposal on approving the acquisition of the Shuanghe Reservoir Concession Project in Yanliang County, the proposal on investment in Haian Libao Water Treatment Co., Ltd. concerning the upgrade and renovation construction project of Libao Wastewater Treatment Plant, the proposal on investment in Haian Qutang Water Treatment Co., Ltd. concerning the upgrade and renovation construction project of Qutang Wastewater Treatment Plant, the proposal on investment in Xundian County Park and part of the road concerning reclaimed water utilization and greening improvement and reconstruction project and the proposal on appointment and management methods of management personnel of subsidiaries.

On 18 July 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on investment in reclaimed water recycling and solid waste co-processing project (acquisition of 100% equity of Liuyang Hongyu Thermal Power Co., Ltd.), the proposal on investment in Wastewater Treatment Project in Xizhu Taoyuan Pian Area, Wuhua District, the proposal on investment in the flood storage and flood control construction project in the Changchongshan Hongyun Pian area of Wuhua District, the proposal on opening a general deposit account in Postal Savings Bank of China and the proposal on 2017 Environmental, Social and Governance Report of Kunming Dianchi Water Treatment Co., Ltd.

On 17 August 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2018, the proposal on 2018 Interim Results Announcement, the proposal on 2018 Interim Report, the proposal on the Corporate Governance Code Report of the Company in 2018, the proposal on 2018 Internal Control Evaluation Report, the proposal on changing 100% equity of Laos' companies to be held by Hong Kong subsidiaries by free transfer, the proposal on openly recruiting overseas legal advisory service agencies in 2018, the proposal on openly recruiting financial printer service agencies in 2018, the proposal on openly recruiting financial public relations and roadshow service agencies in 2018, the proposal on openly recruiting agencies preparing <Kunming Dianchi Water Treatment Co., Ltd. 2018-2022 Strategic Development Plan>, the proposal on adjusting the investment amount of the supporting pipe network project of the wastewater treatment plant in Beigucheng Pian Area of Yiliang Industrial Park and the proposal on the director's, Mr. Wong Man Chung Francis, resignation as independent non-executive director of the Company and chairman of the audit committee.

On 27 September 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on by-election of a director, the proposal on publication of notices of the general meeting, proxy form and reply slip to shareholders, the proposal on determination of the date, time and venue of the first extraordinary general meeting of 2018, the proposal on providing an entrusted loan of RMB300 million to Kunming Development Investment Group Co., Ltd., the proposal on activating Huaxia Bank's additional credit facilities of RMB200 million, the proposal on investment in the project of construction of industrial wastewater centralized treatment station in the Metal and New Material Industrial Park of the Eastern District of Kunming High-tech Zone, the proposal on increasing investment in reclaimed water utilization and greening upgrading and reconstruction project of Xundian County Park and part of the road, the proposal on the project of implementing dewatering sludge reduction for water purification plant complying with the conditions of the transformation in Kunming and the surrounding lakes and the proposal on the construction project of weighbridge system for water purification plants in Kunming and surrounding lakes.

On 1 November 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on increasing investment estimation in second running water supply plant and supporting pipe network (water distribution network) construction project in Shuangjiang autonomous County.

On 12 November 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on the renewal of Industrial Bank's credit facilities of RMB200 million, the proposal on activating Postal Savings Bank of China's credit facilities of RMB200 million, on activating the renewal of China Merchants Bank's credit facilities of RMB120 million and RMB40 million additional credit facilities, the proposal on investment in the construction project of municipal and environmental protection infrastructure auxiliary facilities in the tourist town of Jiuxiang, Yiliang County and the proposal on the implementation of the ultra-low emission transformation project of coal-fired boilers of Liuyang Hongyu Thermal Power Co., Ltd.

On 16 November 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on launching an international and syndicated loan business and the proposal on by-election of an audit committee member.

On 30 November 2018, the Company held a meeting of the Board of Supervisors to consider and approve the proposal on providing loans to Liuyang Hongyu Thermal Power Co., Ltd. and the proposal on providing loans and expiry loan extension to Hongze Water.

III. MAJOR WORK IN 2018

(1) Monitoring the operation of the Company

In 2018, the members of the Board of Supervisors of the Company reviewed the proposals submitted to the Board of Directors and the general meetings for consideration and examined the operating activities of the Company by attending all the Board meetings and general meetings of the Company. The Board of Supervisors believes that the operating activities of the Company are in compliance with the provisions of the relevant laws and regulations of the state and the Articles of Association, the decision-making procedures are legal, the operating results are significant, and the Company has not engaged in any operating activities that are in violation of laws and regulations or exceed the scope of business operation as prescribed in laws and regulations.

(2) Monitoring the Directors and senior management of the Company for their performance of duties

In 2018, the members of the Board of Supervisors of the Company monitored the Directors and senior management of the Company performing their duties by attending the Board meetings, reviewing various proposals of the Board and examining the daily operation and management of the Company. The Board of Supervisors believes that the Directors and senior management of the Company are in compliance with laws, carry out their duties responsibly, and perform their work in a practicable, diligent and due manner. The decision-making procedures are scientific and legal. None of the Directors or senior management has been found to act illegally or in violation of laws and regulations or to the detriment of the rights and interests of the Company and shareholders when performing their duties.

(3) Monitoring the financial position of the Company

In 2018, the Board of Supervisors of the Company carefully reviewed the relevant financial information and audit reports of the Company. The Board of Supervisors believes that the preparation of the financial statements of the Company is in compliance with the Financial Reporting Standards. The report has followed the principle of consistency and has reflected the financial position and operating results of the Company in an accurate, complete, true and fair manner.

(4) Monitoring the connected transactions of the Company

In 2018, the Board of Supervisors reviewed the information regarding the connected transactions between the Company and the Controlling Shareholder. The Board of Supervisors believes that such connected transactions were conducted on normal commercial terms, were fair, equitable and reasonable, and there existed no damages to the interests of the Company and other shareholders.

(5) Internal control

In 2018, the Company established a rather complete internal control system, which was in compliance with the requirements of the relevant laws and regulations of the state and meeting the actual needs of production, operation and management of the Company. Such system could be effectively implemented. The establishment of the internal control system has produced effect on better risk prevention and control on various sectors of production, operation and management of the Company. During the Reporting Period, the supervisory activities of the Board of Supervisors did not reveal any risk existing in the Company and there was no objection to the supervision matters during the Reporting Period.

IV. 2019 ANNUAL WORK PLAN

(1) In accordance with the Articles of Association and the “Rules of Procedure of the Board of Supervisors of the Company” and the requirements of the relevant provisions, the Board of Supervisors will discuss matters during its normal meetings and diligently and responsibly perform its duties. Meetings of the Board of Supervisors will be convened according to the actual situation of the Company. The Board Supervisors will make its best efforts to review and consider various proposals. The financial situation of the Company will be examined and checked. By regularly understanding and reviewing financial reports, it will monitor the financial operation of the Company in order to prevent against operational risks and further safeguard the interests of the Company and shareholders.

(2) The Board of Supervisors will seriously study the relevant state laws and regulations and the newly released policies. It will continuously enhance the efficiency of supervision and actively urge the construction and effective operation of the internal control system. It will establish a long-term effective mechanism of corporate governance, facilitating the sustainable and healthy development of the Company. Moreover, it will give full play to its role as the Board of Supervisors by practicably assuming the responsibility of protecting the interests of shareholders and safeguarding a healthy and stable development of the Company.

(3) The Board of Supervisors will diligently, responsibly and actively participate in the Board meetings, general meetings and other important meetings of the Company. It will participate in the decision-making process in relation to some important matters and ensure the legality of decision-making procedures in relation to some important decision-making matters, which can better safeguard the interests of the Company and shareholders as a whole.

(4) The Board of Supervisors will continue to strengthen its supervision over the Directors and senior management of the Company in respect of performance of duties, implementation of resolutions, compliance with laws and others. In particular, it will strengthen the supervision over the violation of regulations by senior management, dereliction of duty, inaction and the rectification thereof, for the purposes of enabling the senior management's decision-making and operating activities to be more standardized and legal.

In 2019, the Board of Supervisors will seriously abide by the provisions of laws, regulations and the Articles of Association and perform their duties and obligations, and effectively safeguard the interests of the Company and the shareholders, so as to ensure that the Company can operate in a standardized and healthy manner.

pwc 羅兵咸永道

To the Shareholders of Kunming Dianchi Water Treatment Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 128 to 242, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

The key audit matter identified in our audit is recoverability of trade receivables and receivables under service concession arrangements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables, receivables under service concession arrangements and construction contracts	
Refer to Note 16 "Trade and other receivables", Note 9 "Receivables under service concession arrangements", Note 14 "Amounts due from customers for construction contracts" and Note 4 "Critical accounting estimates and judgements" to the consolidated financial statements. As at 31 December 2018, the net carrying amounts of trade receivables, receivables under service concession arrangements and construction contracts were approximately RMB593 million, RMB1,136 million and RMB311 million respectively, and loss allowance provision for trade receivables, receivables under service concession arrangements and construction contracts were approximately RMB9.7 million, RMB5.7 million and RMB1.6 million respectively. Approximately RMB425 million out of total trade receivables, all receivables under service concession arrangements and construction contracts were due from local government authorities and their related entities. Management assess the recoverability of trade receivables, receivables under service concession arrangements and construction contracts based on the risk portfolio, customers' liquidity (primarily local government authorities and their related entities), historical credit losses, past collection history, subsequent settlement and other current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. We focused on this area because of the significant judgement involved in determining the recoverability of trade receivables, receivables under service concession arrangements and construction contracts, mainly attributable to the significance of these balances.	We evaluated and tested management's controls over the Group's assessment process in relation to the recoverability of trade receivables, receivables under service concession arrangements and construction contracts respectively. We reviewed all the relevant contracts for receivables under service concession arrangements and construction contracts to assess the payment schedules and relevant amounts respectively. We tested the accuracy of the ageing report and historical credit losses for trade receivables, receivables under service concession arrangements and construction contracts respectively. We confirmed significant trade receivable balances with customers on a sampling basis. We obtained management's assessment of future expected credit losses and the change of credit risk of individually significant balances of the impairment losses of individually significant balances and corroborated management's assessment against available evidence, including interviewing with customers to get explanations and examining the underlying supporting documents. We examined significant subsequent settlements for trade receivables, receivables under service concession arrangements and construction contracts respectively. We found that management's judgement in assessing the recoverability of trade receivables, receivables under service concession arrangements and construction contracts were supported by the evidence we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Group's 2018 annual report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 March 2019

AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	469,125	445,974
Long-term prepayments	7	–	450,000
Property, plant and equipment	8	3,053,604	2,342,663
Receivables under service concession arrangements	9	1,120,398	529,997
Amounts due from customers for construction contracts	14	291,687	238,383
Intangible assets	10	184,558	135,099
Investments in associates	11	15,074	15,257
Prepayments for acquisition of subsidiaries		–	43,356
Deferred income tax assets	12	50,196	32,957
		5,184,642	4,233,686
Current assets			
Receivables under service concession arrangements	9	15,408	13,747
Inventories	13	12,921	7,515
Amounts due from customers for construction contracts	14	18,911	12,296
Financial assets at fair value through profit or loss	15	170,000	–
Available-for-sale financial assets	15	–	80,000
Trade and other receivables	16	942,551	386,397
Cash and cash equivalents	17	1,079,714	1,291,170
Restricted cash		17,916	–
		2,257,421	1,791,125
Total assets		7,442,063	6,024,811
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	18	1,029,111	1,029,111
Other reserves	19	1,452,284	1,413,937
Retained earnings	20	1,413,378	1,257,039
		3,894,773	3,700,087
Non-controlling interests		6,148	6,114
Total equity		3,900,921	3,706,201

AS AT 31 DECEMBER 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	*22*	222,530	157,479
Borrowings	*21*	1,764,699	1,091,625
Deferred income tax liabilities	*12*	63,374	39,848
		2,050,603	1,288,952
Current liabilities			
Trade and other payables	*23*	379,708	369,850
Current income tax liabilities		84,589	60,238
Borrowings	*21*	1,014,505	599,570
Contract liabilities		11,737	–
		1,490,539	1,029,658
Total liabilities		3,541,142	2,318,610
Total equity and liabilities		7,442,063	6,024,811

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 128 to 242 were approved by the Board of directors on 22 March 2019 and were signed on its behalf.

Guo Yumei
Director

Luo Yun
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December	
	Note	2018 *RMB'000*	2017 *RMB'000*
Revenue	*5*	1,429,787	1,223,825
Cost of sales	*26*	(900,753)	(723,335)
Gross profit		529,034	500,490
Selling expenses	*26*	(14,175)	(13,875)
Administrative expenses	*26*	(135,991)	(124,490)
Research and development expenses	*26*	(4,160)	(7,282)
Net impairment losses on financial and contract assets	*3.1(b)*	(17,562)	–
Other income	*24*	110,525	93,291
Other gains/(losses) – net	*25*	2,052	(4,817)
Operating profit		469,723	443,317
Finance income		56,924	33,706
Finance costs		(111,243)	(104,754)
Finance costs – net	*29*	(54,319)	(71,048)
Share of results of associates	*11*	(183)	156
Profit before income tax		415,221	372,425
Income tax expense	*30*	(65,494)	(58,336)
Profit for the year		349,727	314,089
Profit attributable to:			
– The equity holders of the Company		348,549	313,077
– Non-controlling interests		1,178	1,012
		349,727	314,089
Other comprehensive income/(loss)		3,282	(1,847)
Total comprehensive income for the year		353,009	312,242
Attributable to:			
– The equity holders of the Company		351,831	311,230
– Non-controlling interests		1,178	1,012
		353,009	312,242
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted earnings per share	*31*	0.34	0.33

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

FOR THE YEAR ENDED 31 DECEMBER 2018

		Capital and reserves attributable to the equity holders of the Company					
	Note	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2017		720,000	696,513	1,077,795	2,494,308	5,102	2,499,410
Comprehensive income/(loss):							
Profit for the year		–	–	313,077	313,077	1,012	314,089
Currency translation differences		–	(1,847)	–	(1,847)	–	(1,847)
Transactions with owners:							
Proceeds from H shares issued		309,111	688,349	–	997,460	–	997,460
Dividends declared	*32*	–	–	(102,911)	(102,911)	–	(102,911)
Appropriations:							
Appropriation to statutory reserve	*19(a)*	–	30,922	(30,922)	–	–	–
As at 31 December 2017		1,029,111	1,413,937	1,257,039	3,700,087	6,114	3,706,201
As at 1 January 2018		1,029,111	1,413,937	1,257,039	3,700,087	6,114	3,706,201
Comprehensive income:							
Profit for the year		–	–	348,549	348,549	1,178	349,727
Currency translation differences		–	3,282	–	3,282	–	3,282
Transactions with owners:							
Dividends declared	*32*	–	–	(157,145)	(157,145)	(1,144)	(158,289)
Appropriations:							
Appropriation to statutory reserve	*19(a)*	–	35,065	(35,065)	–	–	–
As at 31 December 2018		1,029,111	1,452,284	1,413,378	3,894,773	6,148	3,900,921

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	33(a)	(630,994)	220,655
Interest paid		(27,430)	(67,198)
Income tax paid		(54,471)	(48,806)
Net cash (used in)/generated from operating activities		(712,895)	104,651
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	35	(148,087)	(168,932)
Purchase of property, plant and equipment		(328,132)	(134,441)
Purchase of intangible assets		(1,162)	(2,974)
Proceeds from disposal of property, plant and equipment	33(b)	12,721	362
Funds granted to related parties	36(b)(ii)	(900,000)	(100,000)
Funds repaid from related parties	36(b)(iii)	900,000	100,000
Interest received		29,811	8,367
Proceeds from disposal of land use rights	33(c)	–	2,710
Government grants received relating to purchase of property, plant and equipment		74,289	67,208
Purchase of structured deposits		(170,000)	(80,000)
Proceed from disposal of structured deposits		80,000	–
Net cash used in investing activities		(450,560)	(307,700)
Cash flows from financing activities			
Payments for listing expenses		–	(53,358)
Dividends declared and paid to the Company's shareholders	32	(160,006)	(102,911)
Dividends declared and paid to non-controlling interests in subsidiaries	32	(1,144)	–
Proceeds from issue of H shares	18(c)	–	1,072,291
Proceeds from borrowings		2,095,000	1,050,000
Repayments of borrowings		(995,792)	(887,656)
Net cash generated from financing activities		938,058	1,078,366
Net (decrease)/increase in cash and cash equivalents		(225,397)	875,317
Effects of exchange rate changes on cash and cash equivalents		13,941	(30,977)
Cash and cash equivalents at beginning of the year	17	1,291,170	446,830
Cash and cash equivalents at end of the year		1,079,714	1,291,170

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

FOR THE YEAR ENDED 31 DECEMBER 2018

1. CORPORATE INFORMATION

Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") was incorporated in Yunnan Province of the People's Republic of China ("**PRC**") on 23 December 2010 as a joint stock company with limited liabilities under the Company Law of the PRC. The registered office of the Company is located at Kunming Dianchi No. 7 Water Treatment Plant. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited ("**HKEX**") on 6 April 2017.

The Company and its subsidiaries (together, the "**Group**") are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. Except for the new adoption of IFRS 9 and IFRS 15, these policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with IFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the disclosure requirements of the Hong Kong Companies Ordinance (HKCO) Cap. 622.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through profit or loss (FVPL) which were measured at fair value.

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- Annual Improvements 2014-2016 cycle
- Transfers to Investment Property – Amendments to IAS 40

The impact of the adoption of IFRS 9 and IFRS 15 is disclosed in Note 2.2 below. The other standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Standards	Effective for annual periods beginning on or after
IFRS 16 "Leases"	1 January 2019
Interpretation 23, "Uncertainty over Income Tax Treatments"	1 January 2019
Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IFRS 10 and IAS 28 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 impact of these new or revised standards which are relevant to the Group's operation. Except as described below, the Group considers that the application of amendments to IFRS, amendments to IASs and the new interpretations is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in the future.

FOR THE YEAR ENDED 31 DECEMBER 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and interpretations not yet adopted (Continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, 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 and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB6,290,000, see Note 34. Of these commitments, approximately RMB315,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB3,816,000 on 1 January 2019, lease liabilities of RMB3,816,000. Overall net assets will not be affected, and net current assets will be RMB299,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that profit before income tax will increase by approximately RMB172,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RMB315,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

2.2.1 Impact on the consolidated financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in Note 2.2.2 below, IFRS 9 and IFRS 15 were generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

FOR THE YEAR ENDED 31 DECEMBER 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.1 Impact on the consolidated financial statements (Continued)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	As at 1 January 2018		
Consolidated Balance sheet (extract)	**As previously stated** *RMB'000*	**Adjustments under IFRS 9 and IFRS 15** *RMB'000*	**Restated** *RMB'000*
Impact of adoption of IFRS 9			
Current assets			
Financial assets at fair value through profit or loss	–	80,000	80,000
Available-for-sale financial assets	80,000	(80,000)	–
Total assets	6,024,811	–	6,024,811
Impact of adoption of IFRS 15			
Current liabilities			
Contract liabilities	–	6,124	6,124
Trade and other payables	369,850	(6,124)	363,726
Total liabilities	2,318,610	–	2,318,610

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.13 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The adoption of IFRS 9 has no impact on the Group's retained earnings as at 1 January 2018.

(a) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018		**FVPL**	**Financial assets at fair value through other comprehensive income (FVOCI) (Available-for-sale financial assets)**
		RMB'000	*RMB'000*
Closing balance 31 December 2017 – IAS 39 *		–	80,000
Reclassify investments from available-for-sale to FVPL	(i)	80,000	(80,000)
Opening balance 1 January 2018 – IFRS 9		80,000	–

* The closing balances as at 31 December 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 Financial Instruments – Impact of adoption (Continued)

(a) Classification and measurement (Continued)

(i) Reclassification from available-for-sale to FVPL

Structured deposit were reclassified from available-for-sale to financial assets at FVPL (RMB80,000,000 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

For the year ended 31 December 2018, net fair value gains of RMB4,198,000 relating to these investments were recognised in profit or loss.

(b) Impairment of financial assets

The Group has four types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables
- receivables under service concession arrangements
- amounts due from customers for construction contracts
- other receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. Other three types are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. The identified loss allowance was immaterial on January 2018, and the net impairment losses was RMB17,562,000 during the current reporting period.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.3 IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and reclassifications to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospectively approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. In summary, the following reclassifications were made to the amounts recognised in the consolidated balance sheet at the date of initial application (1 January 2018):

		IAS 18 carrying amount 31 December 2017	**Reclassification**	**IFRS 15 carrying amount 1 January 2018**
		RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	(i)	–	6,124	6,124
Trade and other payables	(i)	369,850	(6,124)	363,726

(i) Presentation of assets and liabilities related to contracts with customers

The Group has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract liabilities in relation to construction and other contracts were previously presented as part of trade and other payables (RMB6,124,000 as at 1 January 2018).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) 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 consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations not under common control

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired company on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries *(Continued)*

2.3.1 Consolidation (Continued)

(a) Business combinations not under common control (Continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the consolidated statement of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries *(Continued)*

2.3.1 Consolidation *(Continued)*

(b) Business combination under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is earlier.

A uniform set of accounting policies is adopted by those entities. All intra Group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries *(Continued)*

2.3.1 Consolidation (Continued)

(d) 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 the consolidated statement of comprehensive income. 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 may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of comprehensive income.

2.4 Separate financial information

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the consolidated statement of comprehensive income where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associates" in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Segment reporting

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

2.7 Foreign currency translation

(a) 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 consolidated financial statements is presented in Renminbi ("**RMB**"), which is the Company's functional and the Group's presentation currency.

(b) 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 consolidated statement of comprehensive income, 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. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Foreign currency translation *(Continued)*

(c) *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 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.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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.

2.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, 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 charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment *(Continued)*

The Group received certain completed water supply or wastewater treatment facilities as capital injection from its controlling shareholder and undertakes the operation and maintenance of such facilities owned by the Group in the concession period, during which the Group can charge service fees based on the supplied water or treated wastewater to cover its costs of investment, operations and maintenance and obtain reasonable return, according to the concession agreement entered into by the Group and the governmental authority ("**Transfer-Own-Operate**" Model or "**TOO Model**"). Since the Group directed the use of the assets and controlled the significant residual interest in the assets under the TOO Model during the concession period and the Group has the exclusive priority right to extend its operation period and is not required to return these assets to the governmental authority at the end of the concession period, the fixed assets under the TOO Model are accounted for as property, plant and equipment.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	20 to 50 years
Machinery and equipment	8 to 18 years
Office and electronic equipment	3 to 10 years
Motor vehicles	8 to 10 years

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition as well as interest expenses during the periods of construction and installation. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each 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 (Note 2.12).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) – net" in the consolidated statement of comprehensive income.

FOR THE YEAR ENDED 31 DECEMBER 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The land use rights of certain land of the Group were contributed by Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限公司,"**KDI**"). The premium paid for such rights are treated as prepayments for operating lease and recorded as land use rights, which are stated at cost less accumulative amortisation and accumulated impairment losses, if any. Land use rights are amortised over the lease period of 48 to 50 years using straight-line method.

2.10 Intangible assets

(i) Operating concessions

As described in Note 2.11, the Group engages with government authorities in the development, financing, operating and maintenance of wastewater treatment services (concession services) over a specified period of time (concession services period). The Group has access to operate the wastewater treatment facilities to provide the concession services in accordance with the terms specified in the arrangement.

The Group recognises the related rights in the service concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the concession service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets – concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 24.6 to 45.2 years.

(ii) Computer software

Purchased computer software license are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over periods ranging from 5 to 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Service concession arrangements

The Group has entered into certain service concession arrangements with governmental authorities (the "**Grantor**"). The service concession arrangements consist of Build-Operate-Transfer (the "**BOT**") arrangement and Transfer-Operate-Transfer (the "**TOT**") arrangements. Under the BOT arrangements, the Group carries out construction and upgrade work of the wastewater treatment and water supply facilities for the Grantor and receives in return a right to operate the service projects concerned for a specified period of time (the "**Operation Period**") in accordance with the pre-established conditions set by the Grantor, and the service projects should be transferred to the Grantor with nil consideration at the end of the Operation Period. A TOT arrangement is similar to a BOT arrangement except that the Group pays consideration for the right to operate the wastewater treatment and water supply facilities that have been built.

(a) Consideration given by the Grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantor for the construction and upgrade services rendered and/or the consideration paid and payable by the Group to the Grantor. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public services and specified or determinable amounts. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy for loans and receivables set out in Note 2.13.

An intangible asset (operating concession) 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 the services. The intangible asset (operating concession) is accounted for in accordance with the policy set out in Note 2.10(i).

FOR THE YEAR ENDED 31 DECEMBER 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Service concession arrangements *(Continued)*

(a) Consideration given by the Grantor (Continued)

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) 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 received or receivable from the Grantor.

(b) Construction and upgrade services

Revenue and costs relating to construction or upgrade services is accounted for in accordance with the policy set out in Note 2.26(c).

(c) Operating service

During the Operation Period of the service concession arrangements, receipts up to the level of the guarantee are treated as settlement of the financial asset. Additional amounts collected from users are recognised as revenue in accordance with the policy set out in Note 2.26(a). Costs for operating services are expensed in the period in which they are incurred.

(d) Contractual obligations to restore the facilities to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licenses, that is (i) to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or (ii) to restore the plants to a specified condition before they are handed over to the Grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the water treatment plants, except for upgrade element, are recognised and measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. In the opinion of the directors of the Company, the contractual obligations to maintain or restore infrastructure were not material to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of non-financial assets

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

2.13 Investments and other financial assets

2.13.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, 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 OCI. 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 (FVOCI).

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets

2.13.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.13.3 Measurement

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

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 (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets *(Continued)*

2.13.3 Measurement (Continued)

Debt instruments (Continued)

- 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 OCI, except for the recognition of impairment gains or losses, interest income 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 OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) 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 OCI, 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 FVPL are recognised in other gains/(losses) in the statement of profit or loss 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets *(Continued)*

2.13.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 16 for further details.

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a Group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or Group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 3.1(b).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets *(Continued)*

2.13.5 Accounting policies applied until 31 December 2017

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group has financial assets classified as “loans and receivables”.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group’s loans and receivables comprise “trade and other receivables”, “receivables under service concession arrangements” and “cash and cash equivalents”, in the consolidated balance sheet (Note 16, Note 9, and Note 17).

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category. The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets *(Continued)*

2.13.5 Accounting policies applied until 31 December 2017 *(Continued)*

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iii) Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial Reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investments and other financial assets *(Continued)*

2.13.5 Accounting policies applied until 31 December 2017 *(Continued)*

(iii) Impairment of financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.15 Construction contracts

A construction contract is defined by IAS 11, "Construction contracts", as a contract specifically negotiated for the construction of an asset. The Group's construction contracts refer to Build-Transfer (the "**BT**") arrangements. Under the BT arrangements, the Group carried out construction work of the wastewater treatment and water supply facilities and returned the assets to the count parties of the BT arrangements after completion of the construction.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Construction contracts *(Continued)*

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage-of-completion" method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. Amount due from customers for construction contracts represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings. "Amount due to customers for construction contracts" represents a liability where the opposite is the case.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Cash and cash equivalents

In the consolidated cash flows statement, 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. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.19 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.

2.20 Trade and other payables

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

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

2.21 Borrowings

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 consolidated statement of comprehensive income 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Borrowings cost

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

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 the consolidated statement of comprehensive income in the period in which they are incurred.

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the areas where the Company's subsidiaries operate and generate 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Current and deferred income tax *(Continued)*

(b) 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 consolidated financial statements. However, if deferred income tax liabilities arise from the 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, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet 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 is provided on temporary differences arising on investments in subsidiaries, joint controlled entities and associates, 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.

(c) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Employee benefits

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 34). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.26 Provision and contingent liabilities

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. 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.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Provision and contingent liabilities *(Continued)*

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Wastewater treatment and other services

Revenue from wastewater treatment operation and other services is recognised when the services are rendered.

(b) Water supply services

Revenue from water supply services is recognised when a Group entity has delivered water to the customer; the customer has accepted the water and collectability of the related receivables is reasonably assured.

(c) Revenue from construction contracts

Revenue from construction service is recognised on the percentage-of-completion method, as further explained in the accounting policy set out in Note 2.16.

(d) Interest income

Interest 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Revenue recognition *(Continued)*

(e) Dividend income

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

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred revenue and are credited to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the related asset.

2.29 Research and development

Research expenditure is recognised as an expense as incurred.

When the future economic benefits become apparent as a project progresses into the development stage the costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.30 Dividend distribution

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

FOR THE YEAR ENDED 31 DECEMBER 2018

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars ("**HKD**"). Foreign exchange risk arises cash and cash equivalents denominated in HKD. The Group does not hedge against any fluctuation in foreign currency.

As at 31 December 2018, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, profit would have been approximately RMB3,023,480 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash raised through the listing of the Company's H shares.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing borrowings.

Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow or fair value interest-rate risk.

The interest rates and terms of repayments of borrowings are disclosed in Note 21.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2018, if the interest rate on floating interest rate borrowings had been higher/lower by 0.5%, the Group's net profit for each year would have changed mainly as a result of lower/higher interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Year ended:		
Net profit (decrease)/increase		
– Higher 0.5%	(6,453)	(433)
– Lower 0.5%	6,453	433

(b) Credit risk

The carrying amounts of cash and cash equivalents, term deposits with initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

All the cash and cash equivalents and term deposits with initial term of over three months, were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality.

The Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any. The management is of the opinion that the risk of default by counterparties is low.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) ***Credit risk*** *(Continued)*

The Group considers the probability of default upon initial recognition of 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 forwarding-looking information.

(i) Trade receivables

For trade receivables, the customers are primarily local governments and PRC state-owned entities. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before 1 January 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables.

On that basis, loss allowance provision for trade receivables amounted to RMB9,654,000 was recognised as at 31 December 2018. And the expected loss rate for the remaining trade receivables as at 31 December 2018 is determined as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2018				
Expected loss rate	1.0%	6.4%	80.0%	
Gross carrying amount *(RMB'000)*	576,932	23,067	3,023	603,022
Loss allowance provision *(RMB'000)*	(5,769)	(1,467)	(2,418)	(9,654)
	571,163	21,600	605	593,368

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) *Credit risk* *(Continued)*

(ii) Receivables under service concession arrangements / amounts due from customers for construction contracts / other receivables

The Group considers the probability of default upon initial recognition of 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 forwarding-looking information.

The Group uses four categories for these receivables, which reflect their credit risk and how the loss provision is determined for each of those categories.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk	Lifetime expected losses
Non-performing	Customers has difficulties in making full payment despite numerous reminders	Lifetime expected losses
Write-off	There is no reasonable expectation of recovery	Asset is written off

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 other receivables and adjusts for forward looking macroeconomic data.

FOR THE YEAR ENDED 31 DECEMBER 2018

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Receivables under service concession arrangements / amounts due from customers for construction contracts / other receivables (Continued)

On the basis as stated below, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts and other receivables (except for the tax rebate which are not financial assets) amounted to RMB7,908,000 was recognised at 31 December 2018 as follows.

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Total
As at 31 December 2018				
Expected loss rate	0.5%	0.5%	1%	
Gross carrying amount *(RMB'000)*	1,141,513	312,159	63,964	1,517,636
Loss allowance provision *(RMB'000)*	(5,707)	(1,561)	(640)	(7,908)
	1,135,806	310,598	63,324	1,509,728

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. All the borrowings are in compliance with relevant covenant terms if any and the Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

FOR THE YEAR ENDED 31 DECEMBER 2018

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Please refer Note 21(h) for more analysis of liquidity risk and undrawn down bank borrowings facilities in a greater detail respectively.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2018					
Borrowings	1,121,922	648,563	1,268,769	61,638	3,100,892
Financial liabilities included in trade and other payables	289,497	–	–	–	289,497
	1,411,419	648,563	1,268,769	61,638	3,390,389
As at 31 December 2017					
Borrowings	650,263	358,682	83,664	789,569	1,882,178
Financial liabilities included in trade and other payables	230,882	–	–	–	230,882
	881,145	358,682	83,664	789,569	2,113,060

The estimated amount of interest payments on borrowings are arrived based on the principal borrowing balance and prevailing interests rates at respective balance sheet dates up to the final maturity date of the borrowing agreements.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

The net gearing ratio as at 31 December 2018 is as follow:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total borrowings *(Note 21)*	**2,779,204**	1,691,195
Less: Cash and cash equivalents *(Note 17)*	**(1,079,714)**	(1,291,170)
Restricted cash	**(17,916)**	–
Liquid investments *(Note 15)*	**(170,000)**	(80,000)
Net debt	**1,511,574**	320,025
Total equity	**3,900,921**	3,706,201
Total capital	**5,412,495**	4,026,226
Gearing ratio	**27.93%**	7.95%

The increase in the gearing ratio during the year ended 31 December 2018 is resulted primarily from the increase of borrowings, which was used for operations.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

(a) The table below presents financial instruments carried at fair value by different measurement methods. The measurement levels are defined as below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 31 December 2018

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss (FVPL)	170,000	–	–	170,000

At 31 December 2017

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Available-for-sale financial assets	80,000	–	–	80,000

The Group did not have any financial assets or liabilities that are subsequently measured at fair value during the year ended 31 December 2018.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(b) Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Cash and cash equivalents;
- Term deposits with initial term of over three months;
- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and
- Borrowings.

The fair value of non-current receivable under service concession arrangements, non-current amounts due from customers for construction contracts and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group and the Company for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates 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 and 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 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Scope of applying IFRIC 12 for certain wastewater treatment facilities

In determining whether the wastewater treatment facilities fall into the scope of IFRIC 12 "service concession arrangements", the Group applied a lot of accounting judgements, including (i) whether the Grantor controls and can control any significant residual interest in the infrastructure asset; (ii) whether the Grantor is able to exercise control of the residual infrastructure through a call option to acquire the infrastructure asset at the end of the concession period; (iii) whether the Grantor is able to pledge the infrastructure during the whole concession period. For details of accounting policies for wastewater treatment facilities under different models, please refer to Notes 2.8, 2.10 and 2.11.

(b) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation charges in future periods.

(c) Impairment of trade and other receivables, receivables under service concession arrangements and construction contracts

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the risk portfolio, customers' liquidity, historical credit losses, past collection history, subsequent settlement and other current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Current and deferred income tax

The Group is subject to income taxes in different areas in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. 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 income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(e) Percentage of completion of construction and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction or service work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimation of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

(f) Service concession arrangements

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) 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 received or receivable from the Grantor. Significant judgement is exercised in determining the fair value of the financial receivable at initial recognition. Discount rates, estimates of future cash flows and other factors are used in the valuation process. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Service concession arrangements *(Continued)*

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of financial receivables on the consolidated balance sheet, (ii) interest income, which will be recognised as revenue in the consolidated statement of comprehensive income, and (iii) revenue from operating and maintaining the water treatment plants in the consolidated statement of comprehensive income.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

The net amounts of the operating concession carried as intangible assets in the consolidated balance sheet as at 31 December 2018 was RMB163,336,000 (31 December 2017: RMB110,898,000), while the receivables under service concession arrangements was RMB1,135,806,000 (31 December 2017: RMB543,744,000).

(g) Recognition of government grants

As at 31 December 2018, the Group accrued government grant receivables for value-added tax refund of RMB82,471,000 (31 December 2017: RMB56,594,000) (Note 24) respectively. Management considered there is reasonable assurance that the value-added tax refund can be received pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, and the grants were continuously received in 2018. When the expectation is different from the original estimate, such differences will impact the timing of recognition of government grants and reflect in the period in which such estimate is changed.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as executive directors of the Company. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation service.

The executive directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

Unallocated assets consist of deferred income tax assets and investments in associates. Unallocated liabilities consist of deferred income tax liabilities and current income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, property, plant and equipment and intangible assets.

FOR THE YEAR ENDED 31 DECEMBER 2018

5 SEGMENT INFORMATION *(Continued)*

(a) Revenue from all services

The revenue of the Group are set out as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wastewater treatment	**1,159,075**	1,037,163
Operating services – under TOO model	**820,400**	739,620
Operating services – under TOT/BOT model	**65,775**	37,029
Construction services – under BT model	**42,881**	158,800
Construction services – under BOT model	**205,461**	82,213
Finance income	**24,558**	19,501
Reclaimed water supply and running water supply	**115,254**	68,520
Operating services of reclaimed water supply – under TOO model	**14,395**	8,262
Operating services of running water supply – under TOT/BOT model	**11,684**	10,251
Construction services – under BT model	**38,322**	5,657
Construction services – under BOT model	**49,009**	42,491
Finance income	**1,844**	1,859
Others	**155,458**	118,142
Management services	**88,977**	100,098
Transportation services	**3,649**	3,025
Construction services-under BT model	**13,881**	–
Others	**48,951**	15,019
	1,429,787	1,223,825

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2018 is as follows:

	For the year ended 31 December 2018			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue from external customers	1,159,075	115,254	155,458	1,429,787
Segment gross profit	480,070	8,372	40,592	529,034
Segment profit	434,413	3,591	31,719	469,723
Finance income				56,924
Finance costs				(111,243)
Share of results of associates				(183)
Profit before income tax				415,221
Other information				
Depreciation of property, plant and equipment	165,986	8,269	21,315	195,570
Amortisation of land use rights	10,636	–	–	10,636
Amortisation of intangible assets	9,374	–	–	9,374
Capital expenditure	660,985	34,201	316,586	1,011,772

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5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

	As at 31 December 2018			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	6,246,112	361,018	769,663	7,376,793
Unallocated:				
Deferred income tax assets				50,196
Investments in associates				15,074
Total assets				7,442,063
Segment liabilities	2,889,297	132,348	371,534	3,393,179
Unallocated:				
Deferred income tax liabilities				63,374
Current income tax liabilities				84,589
Total liabilities				3,541,142

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2017 is as follows:

	For the year ended 31 December 2017			
Business segment	Wastewater treatment	Water supply	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,037,163	68,520	118,142	1,223,825
Segment gross profit	446,773	4,233	49,484	500,490
Segment profit/(loss)	403,171	(844)	40,990	443,317
Finance income				33,706
Finance costs				(104,754)
Share of results of associates				156
Profit before income tax				372,425
Other information				
Depreciation of property, plant and equipment	153,654	9,035	3,262	165,951
Amortisation of land use rights	9,810	–	–	9,810
Amortisation of intangible assets	5,880	–	–	5,880
Capital expenditure	205,626	23,691	483	229,800

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5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

	As at 31 December 2017			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	5,605,826	352,835	17,936	5,976,597
Unallocated:				
Deferred income tax assets				32,957
Investments in associates				15,257
Total assets				6,024,811
Segment liabilities	2,199,632	13,608	5,284	2,218,524
Unallocated:				
Deferred income tax liabilities				39,848
Current income tax liabilities				60,238
Total liabilities				2,318,610

(c) Geographical information

The Group has derived almost all of its business in the PRC, hence, geographical segment information is not considered necessary.

5 SEGMENT INFORMATION *(Continued)*

(d) Information about major customers

The major customer Groups from whom the individual customer Group's revenue amounted to 10% or more of the Group's total revenue were as below:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Customer A	**555,045**	493,298
Customer B	**208,867**	201,604
	763,912	694,902

The customer portfolio of the Group is concentrated, which is consistent with the industry practise. If the customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

6 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost	**534,992**	501,205
Accumulated amortisation	**(65,867)**	(55,231)
Net book value	**469,125**	445,974
Opening net book value	**445,974**	433,484
Acquisition of subsidiaries *(Note 35)*	**33,787**	24,046
Disposals	**–**	(1,746)
Amortisation charges *(Note (a))*	**(10,636)**	(9,810)
Closing net book value	**469,125**	445,974

6 LAND USE RIGHTS *(Continued)*

(a) Amortisation of land use rights has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales *(Note 26)*	**10,636**	9,810

7 LONG TERM PREPAYMENTS

The Company made prepayments to KDI to purchase four wastewater treatment facilities under construction stage. According to the purchase agreement, the ownership of these wastewater treatment facilities will not be transferred to the Company unless KDI complete the construction and pass the required quality testing. In January 2016, KDI had completed the construction of three wastewater treatment facilities and transferred the ownership of these assets to the Company of RMB413,950,000.

The quality testing of the wastewater treatment facilities was completed and the final consideration was determined as RMB572,323,000 in January 2018. All the relevant facilities were transferred to the Company in January 2018. As at 31 December 2018, the underlying prepayments was nil after the completion of the purchase.

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities *RMB'000*	Machinery and equipment *RMB'000*	Office and electronic equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2017						
Opening net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
Additions	729	6,159	1,269	199	58,425	66,781
Transfer	28,482	345	–	–	(28,827)	–
Acquisition of subsidiaries *(Note 35)*	70,125	2,796	270	–	–	73,191
Disposals	(59)	(380)	(1)	(7)	–	(447)
Depreciation *(Note 26)*	(77,286)	(74,820)	(10,489)	(3,356)	–	(165,951)
Closing net book value	1,459,581	391,385	50,491	11,588	429,618	2,342,663
At 31 December 2017						
Cost	1,880,103	882,040	113,340	32,455	429,618	3,337,556
Accumulated depreciation	(420,522)	(490,655)	(62,849)	(20,867)	–	(994,893)
Net book value	1,459,581	391,385	50,491	11,588	429,618	2,342,663
Year ended 31 December 2018						
Opening net book value	1,459,581	391,385	50,491	11,588	429,618	2,342,663
Additions	304,612	294,933	7,578	5,784	173,640	786,547
Transfer	25	91	53	–	(169)	–
Acquisition of subsidiaries *(Note 35)*	83,225	48,141	518	721	–	132,605
Disposals	(12,515)	(80)	–	(46)	–	(12,641)
Depreciation *(Note 26)*	(80,191)	(101,848)	(10,592)	(2,939)	–	(195,570)
Closing net book value	1,754,737	632,622	48,048	15,108	603,089	3,053,604
At 31 December 2018						
Cost	2,255,450	1,225,125	121,489	38,914	603,089	4,244,067
Accumulated depreciation	(500,713)	(592,503)	(73,441)	(23,806)	–	(1,190,463)
Net book value	1,754,737	632,622	48,048	15,108	603,089	3,053,604

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8 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The net book value of property, plant and equipment pledged as collateral for the Group's borrowings (Note 21) as at the respective balance sheet dates were as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Buildings and facilities	**415,428**	274,455
Machinery and equipment	**19,942**	110,460
	435,370	384,915

(b) Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income (Note 26) as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**192,266**	162,421
Administrative expenses	**3,300**	3,530
Selling and marketing expenses	**4**	–
	195,570	165,951

(c) As at 31 December 2018, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB25,981,000 (31 December 2017: RMB48,403,000).

(d) During the year ended 31 December 2018, the Group has capitalised borrowing costs amounting to RMB8,401,000 on qualifying assets (31 December 2017: RMB6,615,000). Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.93% during the year ended 31 December 2018 (2017: 4.36%).

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the "**Facilities**"). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 24.6 to 45.2 years (the "**Service Concession Periods**"), and the Group will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors 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 term 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, 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 arrangements" set out in Note 2.11 to the consolidated financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) (Note 10) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The effective interest rate fell within the range from 6.51% to 9.23%.

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9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

	As at 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	15,485	13,747
Loss allowance	(77)	–
	15,408	13,747
Non-current portion:		
Receivables under service concession arrangements	1,126,028	529,997
Loss allowance	(5,630)	–
	1,120,398	529,997
	1,135,806	543,744

In respect of the Group and Company's receivables under service concession arrangements, the various companies have different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group's service concession arrangements.

10 INTANGIBLE ASSETS

	Computer software *RMB'000*	Operating concession *RMB'000*	Development cost *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Opening net book value	14,430	49,901	10,866	75,197
Additions	2,574	–	400	2,974
Acquisition of subsidiaries *(Note 35)*	–	62,808	–	62,808
Transfer	1,424	–	(1,424)	–
Amortisation *(Note 26)*	(4,069)	(1,811)	–	(5,880)
Closing net book value	14,359	110,898	9,842	135,099
At 31 December 2017				
Cost	27,721	114,550	9,842	152,113
Accumulated amortisation	(13,362)	(3,652)	–	(17,014)
Net book value	14,359	110,898	9,842	135,099
Year ended 31 December 2018				
Opening net book value	14,359	110,898	9,842	135,099
Additions	1,046	–	116	1,162
Acquisition of subsidiaries *(Note 35)*	–	57,671	–	57,671
Amortisation *(Note 26)*	(4,141)	(5,233)	–	(9,374)
Closing net book value	11,264	163,336	9,958	184,558
At 31 December 2018				
Cost	28,767	172,221	9,958	210,946
Accumulated amortisation	(17,503)	(8,885)	–	(26,388)
Net book value	11,264	163,336	9,958	184,558

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10 INTANGIBLE ASSETS *(Continued)*

(a) Amortisation of intangible assets has been charged to the consolidated statement of comprehensive income (Note 26) as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cost of sales	**8,331**	1,814
Administrative expenses	**1,043**	4,066
	9,374	5,880

(b) Impairment assessment

(i) Operating concession

The recoverable amount of operation concession which are not yet available for use is determined based on the value-in-use calculation using cash flow projections, based on financial forecast approved by management. Management's assumptions and estimation including forecast of utilisation, discount rate and useful lives of 24.6 to 45.2 years. The discount rate used in measuring value-in-use was 11% to 12%, which are pre-tax and reflect special risk relating to operating concessions.

(ii) Development cost

The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial forecast on cost savings approved by management and management's assumptions and estimation including forecast of cost savings, discount rate and useful life of 15 years after the expected completion date of the development in 2018. The discount rate used in measuring value-in-use was 16%, which is pre-tax and reflect special risk relating to development cost.

11 INVESTMENTS IN ASSOCIATES

Investments accounted for using the equity method refer to the associates held by the Group and the Company, a movement of which is set out as follows.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Beginning of the year	**15,257**	15,101
Share of associates' results	**(183)**	156
End of the year	**15,074**	15,257

Particulars of the Group's investments in associates during the year ended 31 December 2018 which are unlisted, are set out as follows:

Company name	**Country/place and date of establishment**	**Paid-up capital**	**Attributable equity interests to the Group As at 31 December 2018**	**2017**	**Principal activities**
Kunming Dianchi Information Construction Management Co., Ltd. (昆明滇池資訊建設管理有限公司, "**Dianchi Information**")	PRC, Kunming 14 May 2012	2,500	**40%**	40%	Construction of the communication pipeline
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd. (雲南滇池嘉淨環保科技有限公司, "**Dianchi Jiajing**")	PRC, Kunming 13 April 2012	11,600	**40%**	40%	Research and promotion of the environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd. (昆明藻井泉香生物科技有限公司, "**Kunming Zaojing**")	PRC Kunming, 12 August 2010	8,000	**35%**	35%	Research and development of the biological products

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11 INVESTMENTS IN ASSOCIATES *(Continued)*

The Group's investments in associates and certain of its key financial information attributable to the Group are as follows:

Year	Assets	Liabilities	Revenues	Profits/ (Losses)	Net assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018	7,642	1,910	371	(183)	5,732
Year ended 31 December 2017	11,383	1,907	579	156	9,476

No individual associate is considered as material to the Group.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets:		
– to be recovered within 12 months	5,328	5,365
– to be recovered after more than 12 months	44,868	27,592
	50,196	32,957
Deferred income tax liabilities:		
– to be recovered within 12 months	1,027	890
– to be recovered after more than 12 months	62,347	38,958
	63,374	39,848

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(Continued)*

Movements in deferred income tax assets and liabilities during the year ended 31 December 2018, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	Tax losses carried forward *(Note a)*	Government grants	Depreciation and amortisation differences arising from the revaluation results *(Note b)*	Impairment	Unrealised foreign exchange losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	1,305	16,060	7,039	–	–	24,404
Acquisition of subsidiaries	76	–	–	–	–	76
Recognised in the consolidated statement of comprehensive income	(817)	7,537	(771)	–	2,731	8,680
At 31 December 2017	564	23,597	6,268	–	2,731	33,160
Acquisition of subsidiaries *(Note 35)*	3,329	–	–	–	–	3,329
Recognised in the consolidated statement of comprehensive income	(219)	11,959	(771)	3,360	43	14,372
At 31 December 2018	3,674	35,556	5,497	3,360	2,774	50,861

(a) Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2018 to 31 December 2022.

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12 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(Continued)*

Deferred income tax liabilities	**Fair value adjustment arising from acquisition of subsidiaries**	**Differences arising from service concession receivables**	**Differences arising from construction contracts**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	3,597	5,726	695	10	10,028
Acquisition of subsidiaries	27,483	–	–	–	27,483
Recognised in the consolidated statement of comprehensive income	(367)	3,483	(695)	119	2,540
At 31 December 2017	30,713	9,209	–	129	40,051
Acquisition of subsidiaries *(Note 35)*	22,944	–	–	–	22,944
Recognised in the consolidated statement of comprehensive income	(1,424)	2,538	–	(69)	1,045
At 31 December 2018	**52,233**	**11,747**	**–**	**60**	**64,040**

13 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Materials for wastewater treatment and water distribution services	**4,963**	2,355
Spare parts	**7,958**	5,160
	12,921	7,515

No provision for inventories has been made during the year ended 31 December 2018 (2017: Nil).

The cost of inventories recognised as cost of sales amounted to approximately RMB57,966,000, for the year ended 31 December 2018 (31 December 2017: RMB37,063,000) (Note 26).

14 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	**19,006**	12,296
Loss allowance	**(95)**	–
	18,911	12,296
Non-current portion:		
Amounts due from customers for construction contracts	**293,153**	238,383
Loss allowance	**(1,466)**	–
	291,687	238,383
	310,598	250,679

To measure the expected credit losses, amounts due from customers for construction contracts have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2018, a provision of approximately RMB1,561,000 (2017: Nil) was made against the gross amounts to amounts due from customers for construction contracts.

15 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current assets		
Structured deposit	**170,000**	80,000

For the year ended 31 December 2018, the gains of RMB4,198,000 were recognised in profit or loss as other income. For the year ended 31 December 2017, the gains of RMB7,615,000 were recognised in comprehensive income as other income, being reclassified from other comprehensive income upon disposal.

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16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	**50,824**	4,852
– Related parties *(Note 36)*	**117,780**	95,467
– Local government	**434,418**	146,232
– Loss allowance	**(9,654)**	–
Trade receivables – net	**593,368**	246,551
Other receivables:		
– Third parties	**28,481**	5,176
– Related parties *(Note 36)*	**24,780**	68,857
– Local government	**125,367**	55,665
– Loss allowance	**(640)**	–
Other receivables – net	**177,988**	129,698
Prepayments:		
– Related parties *(Note 36)*	**60**	–
– Local government	**3,304**	–
– Others	**167,831**	10,148
Prepayments – net	**171,195**	10,148
Trade and other receivables – net	**942,551**	386,397

As at 31 December 2018, the fair values of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2018, the carrying amounts of trade and other receivables are denominated in RMB.

16 TRADE AND OTHER RECEIVABLES *(Continued)*

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the life time expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2018, a provision of approximately RMB9,654,000 (2017: Nil) was made against the gross amounts to trade receivables.

To measure the expected credit losses, other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2018, a provision of approximately RMB640,000 (2017: Nil) was made against the gross amounts to other receivables.

(a) Aging analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
– Within one year	**576,932**	243,528
– Over one year and within two years	**23,067**	3,023
– Over two years	**3,023**	–
	603,022	246,551

The Group does not hold any collateral as security over these debtors.

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17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,079,714**	1,291,170

(a) Cash and cash equivalents are denominated in

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**769,367**	990,739
HKD	**302,348**	297,824
USD	**7,999**	2,607
	1,079,714	1,291,170

(b) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.30% to 1.35% during the year ended 31 December 2018 (2017: 0.35% to 1.54%).

18 SHARE CAPITAL

	As at 31 December	
	2018	2017
Registered, issued and fully paid		
Number of shares *(in thousand)*	**1,029,111**	1,029,111
Share capital *(in RMB'000)*	**1,029,111**	1,029,111

18 SHARE CAPITAL *(Continued)*

(a) The Company was established on 23 December 2010, with an initial registered share capital of RMB360,000,000, divided into 360,000,000 shares with a nominal value of RMB1.00 each. 344,943,000 shares or 95.82% equity interest amounting to RMB1,260,091,000 were issued to KDI at a premium of RMB915,148,000, in exchange for the property, plant and equipment and land use rights under TOO Model of RMB1,189,277,000, certain investments in subsidiaries of RMB5,814,000, and cash of RMB65,000,000. The remaining 15,057,000 shares or 4.18% equity interest amounting to RMB55,000,000 were issued to other four shareholders at a premium of RMB39,943,000, Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**DIG**"), Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, "**IDI**"), Kunming State-owned Assets Management and Operation Co., Ltd. (昆明市國有資產管理運營有限責任公司, "**Kunming State-Owned Asset Management**") and Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "**Xindu Real Estate**").

The capital contributions were paid up by two instalments. The first instalment of RMB1,208,841,000 was received upon the establishment of the Company and the second instalment of RMB106,250,000 was received in the year ended 31 December 2012. The excess of the assets or cash consideration received by the Company over the share capital with the amount of RMB955,091,000 was recorded as share premium. In 2015, RMB360,000,000 was converted from share premium into share capital.

(b) On 12 October 2015, as approved by the shareholders of the Company, the Company increased its share capital by issuing 360,000,000 ordinary shares of RMB1.00 each. The consideration for these newly issued ordinary shares was satisfied for by way of capitalisation of share premium of RMB360,000,000 to share capital.

(c) On 6 April 2017, the Company newly issued 308,572,000 H shares of RMB1.00 each at HKD3.91 per share in connection with the initial listing of H shares of the Company on the Main Board of HKEX, and raised gross proceeds of approximately HKD1,206,517,000 (equivalent to RMB1,070,421,000). Subsequently on 10 May 2017, after the exercise of the over-allotment option, additional 539,000 H shares of RMB1.00 each were issued at HKD3.91 per share and raised gross proceeds of HKD2,107,000 (equivalent to RMB1,870,000). Net proceeds of RMB997,460,000 (after deducting the underwriting commissions and other listing expenses) was raised by the Company, of which RMB309,111,000 was credited to share capital with remaining RMB688,349,000 credited to share premium.

19 OTHER RESERVES

	Share premium *(Note 18(c))* *RMB'000*	Statutory reserve *(Note (a))* *RMB'000*	Capital reserve *(Note (b))* *RMB'000*	Translation reserve *RMB'000*	Total *RMB'000*
At 1 January 2017	595,091	149,215	(47,793)	–	696,513
Appropriation to statutory reserves	–	30,922	–	–	30,922
Currency translation differences	–	–	–	(1,847)	(1,847)
Increase in share premium upon issue of new shares *(Note 18(c))*	688,349	–	–	–	688,349
At 31 December 2017	1,283,440	180,137	(47,793)	(1,847)	1,413,937
Appropriation to statutory reserves	–	35,065	–	–	35,065
Currency translation differences	–	–	–	3,282	3,282
At 31 December 2018	1,283,440	215,202	(47,793)	1,435	1,452,284

(a) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the PRC companies of the Group (the "**PRC Companies**"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

(b) Capital reserve

Capital reserve mainly represented the existing book value from KDI's prospective of certain acquired wastewater treatment facilities and land use rights transferred to the Group from KDI, which did not form part of the capital contribution in the form of share capital in 2010 (Note 18(a)), netting of the consideration of these assets and the deferred tax impact. These wastewater treatment facilities and land use rights were included in the consolidated financial statements as if they had been consolidated from the earliest period presented.

20 RETAINED EARNINGS

	Group
	RMB'000
At 1 January 2017	1,077,795
Profit for the year	313,077
Appropriation to statutory reserves *(Note 19)*	(30,922)
Dividend declared and paid to the Company's shareholders *(Note 32)*	(102,911)
At 31 December 2017	1,257,039
Profit for the year	348,549
Appropriation to statutory reserves *(Note 19)*	(35,065)
Dividend declared and paid to the Company's shareholders *(Note 32)*	(157,145)
At 31 December 2018	**1,413,378**

21 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current:		
Unsecured long-term borrowings	**588,000**	397,000
Secured long-term borrowings *(Note (b))*	**480,635**	–
Corporate bonds *(Note (c))*	**696,064**	694,625
Total non-current borrowings	**1,764,699**	1,091,625
Current:		
Unsecured short-term borrowings	**917,000**	552,000
Secured short-term borrowings *(Note (b))*	**97,505**	47,570
Total current borrowings	**1,014,505**	599,570
Total borrowings	**2,779,204**	1,691,195

(a) All the borrowings were denominated in RMB.

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21 BORROWINGS *(Continued)*

(b) As at 31 December 2018, analysis of the secured borrowings are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Secured by:		
Property, plant and equipment *(Note 8)*	**578,140**	47,570

(c) As approved by the National Development and Reform Commission on 25 November 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company can adjust the interest rate within a range of 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond if they don't agree the adjusted interest rate.

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier are as follows:

	6 months or less	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018	**1,461,175**	**160,000**	**1,158,029**	**2,779,204**
As at 31 December 2017	372,063	227,507	1,091,625	1,691,195

(e) The maturity of borrowings is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
On demand or within 1 year	**1,014,505**	599,570
Between 1 and 2 years	**584,810**	317,000
Between 2 and 5 years	**1,138,656**	80,000
Later than 5 years	**41,233**	694,625
	2,779,204	1,691,195

21 BORROWINGS *(Continued)*

(f) The weighted average effective interest rates for borrowings at each balance sheet date are as follows:

	As at 31 December	
	2018	2017
Borrowings	**5.25%**	4.58%

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

(g) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of non-current borrowings approximated to their carrying amount.

(h) The Group had the following undrawn borrowing facilities:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB facilities	**900,000**	1,301,000

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22 DEFERRED REVENUE

Deferred revenue of the Group and the Company included government grants in respect of the Group or the Company's construction of various facilities and wastewater treatment facilities as well as the conduction of research and development activities.

Government grants relating to property, plant and equipment are recognised to the consolidated statement of comprehensive income on a straight-line basis over the estimated lives of the related assets.

Government grants relating to research and development activities are recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants related to:		
– property plant and equipment	**221,345**	151,372
– research and development activities	**1,185**	6,107
	222,530	157,479

The movements of government grants during the year ended 31 December 2018 are set out as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net book value	**157,479**	107,121
Additions	**76,289**	73,793
Amortisation	**(11,238)**	(23,435)
Closing net book value	**222,530**	157,479

23 TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

Trade and other payables

	As at 31 December	
	2018 *RMB'000*	2017 *RMB'000*
Trade payables	31,006	3,802
Other payables due to:	106,923	71,899
– related parties *(Note 36)*	21,918	18,171
– local government	3,790	4,416
– third parties	81,215	49,312
Consideration payable for acquisition of subsidiaries *(Note 35)*	23,619	12,690
Staff salaries and welfare payables	46,091	28,667
Advance from customers	–	6,124
– related parties *(Note 36)*	–	4,222
– local government	–	101
– third parties	–	1,801
Payables of property, plant and equipment due to:	69,755	84,297
– related parties *(Note 36)*	17,212	32,521
– third parties	52,543	51,776
Payables on acquisition of land use rights from related parties *(Note 36)*	58,194	58,194
Interest payables	2,982	2,021
Accrued taxes other than income tax	41,138	102,156
	379,708	369,850

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23 TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES *(Continued)*

Contract Liabilities

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contract liabilities		
– related parties *(Note 36)*	**1,362**	–
– local government	**8,516**	–
– third parties	**1,859**	–
	11,737	–

(a) As at 31 December 2018, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers,staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

(b) During the year ended 31 December 2018, the Group's trade and other payables are denominated in RMB.

(c) Aging analysis of trade payables to third parties at the respective balance sheet dates is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
– Within one year	**16,682**	3,471
– Over one year and within two years	**14,324**	331
	31,006	3,802

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24 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants:	**93,709**	80,029
– relating to property plant and equipment *(Note 22)*	**6,555**	11,671
– relating to research and development activities *(Note 22)*	**4,683**	11,764
– relating to tax refund *(Note (a))*	**82,471**	56,594
Interest income from cash and cash equivalents	**3,508**	3,307
Interest income from structured deposits *(Note 15)*	**4,198**	7,615
Others	**9,110**	2,340
	110,525	93,291

(a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilization of resources can enjoy the policy of value-added tax ("**VAT**") refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% tax refund proportions respectively.

25 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment – net	**(80)**	(85)
Gains on disposal of land use rights – net	**–**	964
Donation	**(591)**	(3,763)
Gains on bargain purchase	**3,069**	–
Others	**(346)**	(1,933)
	2,052	(4,817)

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26 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Depreciation of properties, plant and equipment *(Note 8)*	**195,570**	165,951
Utilities and electricity	**102,519**	87,555
Employee benefit expenses *(Note 27)*	**151,269**	99,420
Costs of wastewater and water distribution services	**82,685**	49,120
– Material costs	**57,966**	37,063
– Costs for sludge and water hyacinth treatment	**24,719**	12,057
Cost of construction services	**334,880**	289,161
Taxes and levies	**37,183**	40,035
Transportation costs	**9,562**	9,001
Repair and maintenance costs	**20,367**	26,411
Commission charge *(Note 36)*	**9,053**	8,289
Amortisation of land use rights *(Note 6)*	**10,636**	9,810
Office expenditures	**10,980**	8,344
Labour costs	**31,063**	25,581
Professional expenses	**21,873**	13,548
Material used in research and development activities	**4,160**	2,433
Amortisation of intangible assets *(Note 10)*	**9,374**	5,880
Auditor's remuneration	**3,491**	3,580
Listing expenses	**–**	13,255
Miscellaneous	**20,414**	11,608
Total cost of sales, selling expenses,administrative expenses and research and development expenses	**1,055,079**	868,982

27 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS)

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**121,606**	73,786
Contributions to pension plans *(Note (a))*	**15,940**	13,079
Housing fund, medical insurance and other social insurance *(Note (b))*	**13,723**	12,555
	151,269	99,420

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 19% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 6.3% to 23.6% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

During the year ended 31 December 2018, no director received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executives' emoluments

Directors and chief executives' emoluments for the year ended 31 December 2018 are set out as follows:

	Fees	Salary	Discretionary bonuses	Employer's contribution to Benefit scheme	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018						
Executive directors						
Ms. Guo Yumei (郭玉梅) *(i)*	–	506	–	42	73	621
Mr. Luo Yun (羅雲) *(ii)*	–	445	–	42	84	571
Non-executive directors						
Mr. Zeng Feng (曾鋒) *(iii)*	–	–	–	–	–	–
Ms. Song Hong (宋紅) *(iv)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Wong Man Chung Francis (黃文宗) *(v)*	–	139	–	–	–	139
Mr. Yin Xiaobing (尹曉冰) *(vi)*	–	150	–	–	–	150
Mr. He Xifeng (何錫鋒) *(vii)*	–	150	–	–	–	150
Mr. Sin Lik Man (冼力文) *(viii)*	–	28	–	–	–	28
Supervisors						
Mr. Na Zhiqiang (那志強) *(ix)*	–	445	–	42	84	571
Mr. Yao Jianghua (姚建華) *(x)*	–	141	–	42	70	253
Mr. Shao Wei (邵偉) *(xi)*	–	–	–	–	–	–
Chief executive						
Mr. Mei Yili (梅益立) *(xii)*	–	413	–	42	72	527
Mr. Yang Yang (楊陽) *(xiii)*	–	445	–	42	84	571
	–	2,862	–	252	467	3,581

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

Directors and chief executives' emoluments for the year ended 31 December 2017 are set out as follows:

	Fees	Salary	Discretionary bonuses	Employer's contribution to Benefit scheme	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017						
Executive directors						
Ms. Guo Yumei (郭玉梅) *(i)*	–	492	–	36	63	591
Mr. Luo Yun (羅雲) *(ii)*	–	443	–	34	56	533
Non-executive directors						
Mr. Zeng Feng (曾鋒) *(iii)*	–	–	–	–	–	–
Ms. Song Hong (宋紅) *(iv)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Wong Man Chung Francis (黃文宗) *(v)*	–	220	–	–	–	220
Mr. Yin Xiaobing (尹曉冰) *(vi)*	–	150	–	–	–	150
Mr. He Xifeng (何錫鋒) *(vii)*	–	150	–	–	–	150
Supervisors						
Mr. Na Zhiqiang (那志強) *(ix)*	–	443	–	34	56	533
Mr. Yao Jianghua (姚建華) *(x)*	–	229	–	36	62	327
Mr. Shao Wei (邵偉) *(xi)*	–	–	–	–	–	–
Chief executive						
Mr. Mei Yili (梅益立) *(xii)*	–	443	–	36	63	542
Mr. Yang Yang (楊陽) *(xiii)*	–	443	–	34	53	530
	–	3,013	–	210	353	3,576

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28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

(i) Ms. Guo Yumei was appointed as an executive director of the Company in January 2011, and the chairperson of the board in June 2016.

(ii) Mr. Luo Yun was appointed as an executive director of the Company in June 2016. Mr. Luo served as the assistant to general manager from June 2013 to January 2015 and was appointed as the deputy general manager of the Company since January 2015.

(iii) Mr. Zeng Feng was appointed as a non-executive director of the Company in January 2011, and resigned in March 2018.

(iv) Ms. Song Hong was appointed as a non-executive director of the Company in June 2016.

(v) Ms. Ma Ce was appointed as a non-executive director of the Company in June 2018.

(vi) Mr. Wong Man Chung Francis was appointed as an independent non-executive director in June 2016, and resigned in August 2018.

(vii) Mr. Yin Xiaobing was appointed as an independent non-executive director in June 2016.

(viii) Mr. He Xifeng was appointed as an independent non-executive director in June 2016.

(ix) Mr. Sin Lik Man was appointed as an independent non-executive director in November 2018.

(x) Mr. Na Zhiqiang was appointed as the chairman of the Board of Supervisors and an employee representative supervisor in January 2011.

(xi) Mr. Yao Jianghua was appointed as an employee representative supervisor in January 2011.

(xii) Mr. Shao Wei was appointed as a supervisor in May 2016.

(xiii) Mr. Mei Yili was appointed as the deputy general manager of the Company since January 2015. Mr. Mei Yili served as management role in different subsidiaries of the Company and the Controlling Shareholder before the appointment as chief executive in the Company.

(xiv) Mr. Yang Yang was appointed as the chief financial officer of the Company in January 2015.

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Directors' retirement benefits

There is no retirement benefits by a defined benefit pension plan operated by the Group.

(c) Directors' termination benefits

There is no directors' termination benefits operated by the Group.

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

During the year ended 31 December 2018, no consideration was provided to third parties for making available directors' services (2017: Nil).

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

During the year ended 31 December 2018, there were no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors (2017: Nil).

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

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 year or at any time during the year ended 31 December 2018 (2017: Nil).

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 2 directors, 1 supervisor and 2 chief executives for the year ended 31 December 2018 (2017: 2 directors, 1 supervisor and 2 chief executives). Their emoluments are reflected in the analysis presented above.

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29 FINANCE COSTS – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income:		
– Interest income from term deposits	**3,641**	–
– Interest income charged to related parties *(Note 36)*	**34,111**	26,314
– Interest income arising from construction contracts	**19,172**	7,392
	56,924	33,706
Finance costs:		
– Interest expenses on unsecured borrowings	**(81,582)**	(47,397)
– Interest expenses on corporate bonds	**(21,315)**	(30,952)
– Interest expenses on secured borrowings	**(30,224)**	(3,811)
– Total interest expenses on borrowings	**(133,121)**	(82,160)
– Less: borrowing costs capitalised in property, plant and equipment *(Note 8(d))*	**8,401**	6,615
– Interest expenses – net	**(124,720)**	(75,545)
– Exchange loss	**13,941**	(29,130)
– Others	**(464)**	(79)
	(111,243)	(104,754)
Finance costs – net	**(54,319)**	(71,048)

30 INCOME TAX EXPENSE

The amounts of income tax expense charged to the consolidated statement of comprehensive income represent:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**78,821**	64,476
Deferred income tax *(Note 12)*	**(13,327)**	(6,140)
Income tax expense	**65,494**	58,336

The Group was not subject to Hong Kong profits tax during the year ended 31 December 2018 as there was no assessable income arising in or derived from Hong Kong.

Under the Law of the PRC on Corporate Income Tax (the "**CIT Law**") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the year ended 31 December 2018, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

(a) China's west region development policy (the "**West Region Development Policy**") is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the year ended 31 December 2018, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

(b) In addition to the West Region Development Policy, the Company also qualifies as a "High-tech Enterprise" and enjoys a 15% enterprise income tax rate during the year ended 31 December 2018 (2017: 15%).

30 INCOME TAX EXPENSE *(Continued)*

(c) Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, and are entitled to three years' exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.

(d) Certain subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**415,221**	372,425
Tax calculated at the domestic CIT rate applicable	**103,805**	93,106
Tax effect of:		
Expenses not deductible for tax purpose *(Note (i))*	**89**	870
Preferential tax rate of the Company and certain subsidiaries *(Note (a) and (b))*	**(36,820)**	(35,085)
Income not subject to income tax *(Note (c))*	**(895)**	(126)
Share of results of associates	**(27)**	(23)
Others	**(658)**	(406)
Income tax expense	**65,494**	58,336

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law, write-off of inventories and receivables without tax authorities' approval.

31 EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company *(RMB'000)*	**348,549**	313,077
Weighted average number of ordinary shares in issue *(thousand)*	**1,029,111**	947,760
Basic earnings per share *(RMB)*	**0.34**	0.33

(b) The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the year ended 31 December 2018.

32 DIVIDENDS

	Year ended 31 December	
	2018 *RMB'000*	2017 *RMB'000*
(a) Final dividend for the year ended 31 December 2017 of RMB0.1527 (2016: RMB0.1) per share *(Note i)*	**157,145**	102,911
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of RMB0.1714 per share (2017 – RMB0.1527). The aggregate amount of the proposed dividend expected to be paid in 2018 out of retained earnings at 31 December 2017, but not recognised as a liability at year end, is *(Note 38)*	**176,390**	157,145

(i) As approved by the board of directors' meeting on 22 June 2018, the Company declared a dividend of RMB157,145,000 in respect of the accumulated distributable profit as at 31 December 2017. The declaration of the dividend has been reflected as an appropriation of retained earnings during the year ended 31 December 2018. The dividends were paid out during the year ended 31 December 2018.

FOR THE YEAR ENDED 31 DECEMBER 2018

33 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year before income tax	415,221	372,425
Adjustments for:		
Impairment losses on financial and contract assets	17,562	–
– Depreciation of property, plant and equipment	195,570	165,951
– Amortisation of land use rights	10,636	9,810
– Amortisation of intangible assets	9,374	5,880
– Share of results of associates	183	(156)
– Finance costs – net	(70,401)	70,969
– Interest income from structured deposits	(4,198)	(7,615)
– Amortisation of government grants relating to purchase of property, plant and equipment	(6,555)	(11,671)
– Loss on disposal of property, plant and equipment	(80)	85
– Gains on disposal of land use rights	–	(964)
– Gains on bargain purchase	(3,069)	–
	564,243	604,714
Changes in working capital:		
– Increase in trade and other receivables	(497,290)	(74,819)
– Decrease in inventories	2,704	3,096
– Increase in amount due from customers for construction contracts	(6,108)	(148,570)
– Increase in receivables under service concession arrangements	(458,762)	(112,618)
– Decrease in deferred revenue relating to research and development activities	(4,683)	(5,179)
– Decrease in trade and other payables	(231,098)	(45,969)
Cash (used in)/generated from operations	(630,994)	220,655

33 CASH FLOW INFORMATION *(Continued)*

(b) In the consolidated cash flow statement, proceeds from disposal of properties, plant and equipment comprise:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net book value *(Note 8)*	**12,641**	447
Gains/(Losses) on disposal of property, plant and equipment *(Note 25)*	**80**	(85)
Proceeds from the disposal	**12,721**	362

(c) In the consolidated cash flow statement, proceeds from disposal of land use rights comprise:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net book value *(Note 6)*	**–**	1,746
Gains on disposal of land use rights *(Note 25)*	**–**	964
Proceeds from the disposal	**–**	2,710

FOR THE YEAR ENDED 31 DECEMBER 2018

33 CASH FLOW INFORMATION *(Continued)*

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Net debt	**Year ended 31 December** 2018 *RMB'000*	2017 *RMB'000*
Cash and cash equivalents	1,079,714	1,291,170
Restricted cash	17,916	–
Liquid investments	170,000	80,000
Borrowings – repayable within one year (including overdraft)	(1,014,505)	(599,570)
Borrowings – repayable after one year	(1,764,699)	(1,091,625)
Net debt	(1,511,574)	(320,025)
Cash and liquid investments	1,267,630	1,371,170
Gross debt – fixed interest rates	(1,716,204)	(1,391,195)
Gross debt – variable interest rates	(1,063,000)	(300,000)
Net debt	(1,511,574)	(320,025)

	Other assets		Liabilities from financing activities		
	Cash/bank over draft *RMB'000*	Liquid investments *RMB'000*	Borrowing due within 1 year *RMB'000*	Borrowing due after 1 year *RMB'000*	Total *RMB'000*
Net debt as at 1 January 2017	446,830	–	(778,737)	(741,995)	(1,073,902)
Cash flows	875,317	80,000	258,737	(421,081)	792,973
Foreign exchange adjustments	(30,977)	–	–	–	(30,977)
Other non-cash movements	–	–	(79,570)	71,451	(8,119)
Net debt as at 31 December 2017	1,291,170	80,000	(599,570)	(1,091,625)	(320,025)
Cash flows	(201,605)	90,000	49,570	(1,134,134)	(1,196,169)
Foreign exchange adjustments	8,065	–	–	–	8,065
Other non-cash movements	–	–	(464,505)	461,060	(3,445)
Net debt as at 31 December 2018	1,097,630	170,000	(1,014,505)	(1,764,699)	(1,511,574)

34 COMMITMENTS

(a) Capital commitments

(i) Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**37,074**	101,957

(ii) Acquisition of equity interests in subsidiaries:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Acquisition of equity interests in subsidiaries	**865**	122,200

FOR THE YEAR ENDED 31 DECEMBER 2018

34 COMMITMENTS *(Continued)*

(b) Operating lease commitments – the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	315	121
Later than 1 year and no later than 2 years	305	121
Later than 2 years and no later than 5 years	963	363
Later than 5 years	4,707	2,253
	6,290	2,858

(c) Concession projects and construction projects contracted at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Concession projects and construction projects	148,788	–

35 BUSINESS COMBINATIONS

During the year ended 31 December 2018, the Group acquired equity interests in certain subsidiaries from independent third parties. Details of the acquisitions are as follows:

(i) On 19 January 2018, the Group acquired 100% of the equity interests in Zhuji Dongdaciwu Wastewater Co. Ltd. (諸暨市東大次塢汙水處理有限公司 "**Dongda Water**") at a consideration of RMB83,443,000. After the acquisition, Dongda Water became a directly owned subsidiary of the Group.

Qutang Water's principal activity is wastewater treatment, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 19 January 2018 *RMB'000*
Cash consideration:	83,443
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	53
Receivables under service concession arrangements	64,123
Intangible assets	57,671
Property, plant and equipment	66
Inventories	115
Trade and other receivables	14,346
Trade and other payables	(38,513)
Deferred tax liabilities	(14,418)
Total identifiable net assets	83,443

Intangible assets of RMB57,671,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2018 contributed by Dongda Water was approximately RMB32,204,000. Dongda Water also contributed profit of approximately RMB4,077,000 over the same period.

If the acquisition had occurred on 1 January 2018, there is no material impacts on consolidated pro-forma revenue and profit for the year ended 31 December 2018. These amounts have been calculated using the subsidiary's results and adjusting them for:

35 BUSINESS COMBINATIONS *(Continued)*

(ii) On 25 January 2018, the Group acquired 100% of the equity interests in Leshan Debei'ao Water Co. Ltd. (樂山德貝奧水務有限公司 "**Debei'ao Water**"), at a consideration of RMB80,230,000. After the acquisition, Debei'ao Water became a directly owned subsidiary of the Group.

Debei'ao Water's principal activities are wastewater treatment, and were acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 25 January 2018 *RMB'000*
Cash consideration:	80,230
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	117
Amount due from customers for construction contracts	50,170
Receivables under service concession arrangements	86,739
Property, plant and equipment	673
Trade and other receivables	2,372
Trade and other payables	(59,841)
Total identifiable net assets	80,230

Receivables under service concession arrangements of RMB86,739,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2018 contributed by Debei'ao Water was approximately RMB3,413,000. Debei'ao Water also incurred loss of approximately RMB114,000 over the same period.

If the acquisition had occurred on 1 January 2018, there is no material impacts on consolidated pro-forma revenue and profit for the year ended 31 December 2018. These amounts have been calculated using the subsidiary's results and adjusting them for:

35 BUSINESS COMBINATIONS *(Continued)*

(iii) On 8 October 2018, the Group acquired 100% of the equity interests in Liuyang Hongyu Thermal Power Co. Ltd. (宏宇熱電 "**Hongyu Thermal Power**"), at a consideration of RMB41,402,600. After the acquisition, Hongyu Thermal Power became a directly owned subsidiary of the Group.

Hongyu Thermal Power's principal activity is thermal production, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 8 October 2018 *RMB'000*
Cash consideration:	41,403
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	2,534
Land use rights	33,787
Property, plant and equipment	131,866
Inventories	7,995
Trade and other receivables	36,590
Deferred tax assets	3,329
Borrowings	(15,000)
Trade and other payables	(146,103)
Deferred revenue	(2,000)
Deferred tax liabilities	(8,526)
Total identifiable net assets	44,472
Add: gains on bargain purchase	(3,069)
Net assets acquired	41,403

The revenue included in the consolidated income statement of the Group since the acquisition date to 31 December 2018 contributed by Hongyu Thermal Power was approximately RMB37,276,000. Hongyu Thermal Power also contributed profit of approximately RMB4,555,000 over the same period.

If the acquisition had occurred on 1 January 2018, consolidated pro-forma revenue and profit for the year ended 31 December 2018 would have been RMB132,065,000 and RMB6,107,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2018, together with the consequential tax effects.

35 BUSINESS COMBINATIONS *(Continued)*

(iv) The following table summarised the cash flows from the acquisitions and acquisition-related costs for the year ended 31 December 2018:

	Year ended 31 December 2018 *RMB'000*
Total cash consideration	205,076
Less: change in consideration payable in respect of acquisition of subsidiaries *(Note 23)*	(10,929)
cash and cash equivalents in the subsidiaries acquired	(2,704)
change in prepayments	(43,356)
Cash outflows from the acquisitions	**148,087**

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by KDI, which is a government-related enterprise established in the PRC by Kunming SASAC. In accordance with IAS 24 (Revised), "Related Party Disclosures", issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

36 RELATED PARTY TRANSACTIONS *(Continued)*

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 31 December 2018, and balances arising from related party transactions as at 31 December 2018.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
KDI	Controlling shareholder of the Company
Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**DIG**")	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, "**IDI**")	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming State-Owned Asset Management	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "**Xindu Real Estate**")	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, "**Xindu Investment**")	Controlled by Kunming SASAC
Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, "**Kunming Bus**")	Controlled by Kunming SASAC
Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, "**Kunming CGE**")	Controlled by Kunming SASAC
Kunming Qingyuan Water Supply Co., Ltd. (昆明清源自來水有限責任公司, "**Kunming Qingyuan**")	Controlled by Kunming SASAC
Kunming Panasia Lakes Integrated Regulation Co., Ltd. (昆明泛亞湖泊綜合治理有限公司, "**Kunming Panasia**")	Controlled by KDI

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36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the year ended 31 December 2018 and the Group had the following significant transactions with related parties.

(i) Purchase of property,plant and equipment:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
KDI	**54,035**	–

(ii) Loans granted to related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Kunming Bus	**300,000**	100,000
IDI	**300,000**	–
DIG	**300,000**	–
	900,000	100,000

The transaction under finance arrangement between the Group and related parties are paid and settled by RMB, repayable on demand.

Interest was charged on certain loans granted to related parties at a rate of 7% and 8.5% (2017: 8% to 10%).

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(iii) Loans repaid from related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Kunming Bus	**300,000**	100,000
IDI	**300,000**	–
DIG	**300,000**	–
	900,000	100,000

(iv) Interest income from related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
DIG	**2,256**	–
IDI	**14,748**	–
KDI	**–**	25,562
Kunming Bus	**17,107**	752
	34,111	26,314

(v) Transportation services provided to related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Kunming Panasia	**–**	386

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36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(vi) Operation services provided to related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
KDI	67,999	88,030

(vii) Other services provided to related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
KDI	18	–

(viii) Commission charged by related parties:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Kunming CGE	7,665	6,908
Kunming Qingyuan	1,388	1,381
	9,053	8,289

36 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

Key management includes directors (executive and non-executive), supervisors and executives. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and bonuses	2,862	3,013
Contributions to pension plans	252	210
Housing fund, medical insurance and other social insurance	467	353
	3,581	3,576

(d) Balances with related parties

(i) Trade and other receivables due from related parties:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
KDI	87,976	112,708
Xindu Investment	24,232	24,232
Kunming CGE	21,301	19,685
Kunming Qingyuan	9,111	7,699
	142,620	164,324

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

FOR THE YEAR ENDED 31 DECEMBER 2018

36 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties *(Continued)*

(ii) Trade and other payables due to related parties:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Acquisition of property plant and equipment:		
KDI	**–**	16,481
Xindu Investment	**16,040**	16,040
Acquisition of land use rights:		
KDI	**27,194**	27,194
Xindu Investment	**31,000**	31,000
Others:		
KDI	**21,884**	17,513
Kunming CGE	**904**	355
Kunming Qingyuan	**302**	303
	97,324	108,886

Other payables are all non-trade payables and will be settled upon demand of these related parties.

(iii) Advances from related parties for services to be provided/contract liabilities:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
KDI	**1,362**	4,222

37 SUBSIDIARIES

Particulars of the subsidiaries as at the date of this report and during the year ended 31 December 2018 are set out below:

Company name	Country or place and date of incorporation	Issued and paid up capital (RMB'000)	Effective interests held by the Group % 31 December 2018	2017	Direct or Indirect	Principle activities
Yunnan Reclaimed Industry Co., Ltd. (雲南中水工業有限公司, "**Yunnan Reclaimed Water**")	PRC, 28 March 2002	10,000	100%	100%	Direct	Reclaimed water supply
Kunming Wastewater Treatment and Operation Co., Ltd. (昆明城市污水處理運營有限責任公司, "**City Operation**")	PRC, 15 June 2005	3,000	100%	100%	Direct	Operation of wastewater treatment facilities
Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司, "**Dianchi Logistics**")	PRC, 15 June 2005	10,000	100%	100%	Direct	Logistics and leasing services
Kunming Dianchi Water Treatment Occupation Training School (昆明滇池水處理職業培訓學校, "**Dianchi Training School**")	PRC, 26 October 2012	200	100%	100%	Direct	Professional training services
Xundian Dianchi Water Co. Ltd. (尋甸滇池水務有限公司, "**Xundian Wastewater**")	PRC, 30 April 2009	10,000	100%	100%	Direct	Wastewater treatment
Shidian Dianchi Water Treatment Co., Ltd. (施甸滇池水務有限公司, "**Shidian Water**")	PRC, 21 July 2014	23,300	100%	100%	Direct	Wastewater treatment
Yiliang Dianchi Water Treatment Co., Ltd. (彝良滇池水務有限公司, "**Yiliang Water**")	PRC, 4 June 2015	21,000	100%	100%	Direct	Wastewater treatment
Malong Dianchi Water Treatment Co., Ltd. (馬龍滇池水務有限公司, "**Malong Water**")	PRC, 13 August 2015	62,059	100%	100%	Direct	Wastewater treatment and running water supply
Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司, "**Fanchang Water**")	PRC, 8 May 2014	30,000	100%	100%	Direct	Wastewater treatment
Zhuji Dianchi Water Treatment Co., Ltd. (諸暨滇池水務有限公司, "**Zhuji Water**")	PRC, 30 November 2015	25,000	100%	100%	Direct	Wastewater treatment

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37 SUBSIDIARIES *(Continued)*

Company name	Country or place and date of incorporation	Issued and paid up capital (RMB'000)	Effective interests held by the Group % 31 December 2018	2017	Direct or Indirect	Principle activities
Suijiang Dianchi Water Treatment Co., Ltd. (綏江滇池水務有限公司, "**Suijiang Water**")	PRC, 9 December 2015	22,000	100%	100%	Direct	Wastewater treatment
Ziyunxian Dianchi Water Treatment Co., Ltd. (紫雲縣滇池水務有限公司, "**Ziyun Water**")	PRC, 12 January 2016	12,000	100%	100%	Direct	Wastewater treatment
Guizhou Bafang Water Treatment Co., Ltd. (貴州八方水務有限公司, "**Bafang Water**")	PRC, 5 January 2011	10,000	100%	100%	Direct	Wastewater treatment
Kunming He'ertai Environmental industry and trade Co., Ltd. (昆明和而泰環保工貿有限責任公司, "**He'ertai Environmental**")	PRC, 7 February 2002	10,000	51%	51%	Direct	Manufacturing and sales of chemical products
Shuangjiang Dianchi Water Treatment Co., Ltd. (雙江滇池水務有限公司, "**Shuangjiang Water**")	PRC, 8 October 2016	10,000	100%	100%	Direct	Running water supply
Dian Chi Water Treatment (LAOS) Sole Co., Ltd.	LAOS, 22 August 2016	51,412	100%	100%	Direct	Wastewater treatment
Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "**Qutang Water**")	PRC, 6 July 2009	2,000	100%	100%	Direct	Wastewater treatment
Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, "**Hongze Water**")	PRC, 6 March 2006	30,000	100%	100%	Direct	Wastewater treatment
Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "**Libao Water**")	PRC, 7 July 2009	2,000	100%	100%	Direct	Wastewater treatment
Liuyang Hongyu Water Treatment Co., Ltd. (瀏陽市宏宇水務有限公司, "**Hongyu Water**")	PRC, 21 April 2006	86,000	100%	100%	Direct	Wastewater treatment
Kunming Dianchi Water Environment Monitoring Co., Ltd. (昆明滇池水務環境監測有限公司, "**Environment Monitoring**")	PRC, 31 March 2017	3,000	100%	100%	Direct	Water quality testing
Kunming Dianchi Water Jizhen Co., Ltd. (昆明滇池水務集鎮污水處理有限公司, "**Jizhen Water**")	PRC, 11 April 2017	1,000	100%	100%	Direct	Operation of wastewater treatment facilities

37 SUBSIDIARIES *(Continued)*

Company name	Country or place and date of incorporation	Issued and paid up capital (RMB'000)	Effective interests held by the Group % 31 December 2018	2017	Direct or Indirect	Principle activities
Debei'ao Water	PRC, 11 August 2014	70,000	100%	–	Direct	Wastewater treatment
Dongda Water	PRC, 22 July 2013	24,100	100%	–	Direct	Wastewater treatment
Hongyu Thermal Power	PRC, 12 March 2008	30,000	100%	–	Direct	Thermal production

All the subsidiaries are companies with limited liability.

The English names of the PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

38 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed below and elsewhere in the notes to the financial statements set out above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2018:

(a) Dividend

Pursuant to a resolution of the Board of the Directors dated 22 March 2019, the Company has proposed dividend of RMB0.1714 per share, which is RMB176,389,625.40 in total. The proposal is subject to approval in the annual general meeting.

(b) Entrusted loan provided to Xindu Investment

The Company entered into an entrusted loan contract with Xindu Investment and Kunming Branch of Evergrowing Bank Co., Ltd. (恒豐銀行股份有限公司昆明分行) on 17 January 2019, pursuant to which the Company entrusted Kunming Branch of Evergrowing Bank Co., Ltd. to provide a 12-month entrusted loan of RMB400 million to Xindu Investment with an annual interest rate of 7.5%.

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38 EVENTS AFTER THE BALANCE SHEET DATE *(Continued)*

(c) Financing of borrowing

On 20 March 2019, the Group entered into a syndicated loan agreement with a number of banks for loan facilities amounted to US$150 million and HK$950 million respectively. The main purposes of the loans are: (i) funding the Group's working capital requirements; (ii) refinancing all or part of the Group's specific and existing liabilities. No withdrawals have been made as at the date of the consolidated financial statements that have been approved for issue by the Board of Directors.

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Land use rights	**442,373**	452,383
Long term prepayments	**–**	450,000
Property, plant and equipment	**2,801,638**	2,232,081
Receivables under service concession arrangements	**488,540**	186,467
Amounts due from customers for construction contracts	**235,243**	182,382
Intangible assets	**20,728**	22,508
Investments in subsidiaries	**759,184**	523,293
Investments in associates	**17,756**	17,939
Prepayments for acquisition of subsidiaries	**–**	43,356
Deferred income tax assets	**39,690**	26,198
	4,805,152	4,136,607
Current assets		
Inventories	**4,556**	3,059
Amounts due from customers for construction contracts	**15,838**	9,867
Financial assets at fair value through profit or loss	**170,000**	80,000
Trade and other receivables	**1,129,131**	454,972
Cash and cash equivalents	**997,227**	1,226,305
Restricted cash	**17,916**	–
	2,334,668	1,774,203
Total assets	**7,139,820**	5,910,810

FOR THE YEAR ENDED 31 DECEMBER 2018

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
EQUITY		
Share capital	1,029,111	1,029,111
Other reserves *(a)*	1,487,117	1,456,923
Retained earnings *(a)*	1,312,400	1,197,794
Total equity	3,828,628	3,683,828
LIABILITIES		
Non-current liabilities		
Deferred revenue	220,072	157,310
Borrowings	1,749,699	1,091,625
	1,969,771	1,248,935
Current liabilities		
Trade and other payables	249,138	323,342
Current income tax liabilities	67,713	55,135
Contract liabilities	10,065	–
Borrowings	1,014,505	599,570
	1,341,421	978,047
Total liabilities	3,311,192	2,226,982
Total equity and liabilities	7,139,820	5,910,810

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

(a) Reserves movements of the Company

Company

	Share premium	Other reserves Statutory reserve	Total	Retained Earning
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	595,091	145,703	740,794	1,050,844
Profit for the year	–	–	–	277,641
Appropriation to statutory reserves	–	27,780	27,780	(27,780)
Dividends declared and paid to the Company's shareholders	688,349	–	688,349	(102,911)
At 31 December 2017	1,283,440	173,483	1,456,923	1,197,794
Profit for the year	–	–	–	301,945
Appropriation to statutory reserves	–	30,194	30,194	(30,194)
Dividends declared and paid to the Company's shareholders	–	–	–	(157,145)
At 31 December 2018	1,283,440	203,677	1,487,117	1,312,400