KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED
康達國際環保有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6136

2018

Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Mr. Zhang Weizhong (Chief executive officer)
(resigned on 4 April 2019)
Ms. Liu Zhiwei (Vice president)
(resigned on 4 April 2019)
Mr. Gu Weiping (Vice president)
(resigned on 4 April 2019)
Mr. Wang Litong (Vice president)
(resigned on 4 April 2019)
Mr. Wang Tianci (Vice president)
(resigned on 4 April 2019)
Mr. Li Zhong (Honorary Chairman)
(appointed on 4 April 2019)
Ms. Liu Yu Jie (appointed on 4 April 2019)
Mr. Duan, Jerry Linnan (appointed on 4 April 2019)

Independent Non-executive Directors

Mr. Tsui Yiu Wa Alec (resigned on 4 April 2019)
Mr. Chau Kam Wing (appointed on 4 April 2019)
Mr. Chang Qing
Mr. Peng Yongzhen

AUDIT COMMITTEE

Mr. Tsui Yiu Wa Alec (Chairman)
(resigned on 4 April 2019)
Mr. Chau Kam Wing (Chairman)
(appointed on 4 April 2019)
Mr. Chang Qing
Mr. Peng Yongzhen

REMUNERATION COMMITTEE

Mr. Chang Qing (Chairman) (resigned on 4 April 2019)
Mr. Peng Yongzhen (Chairman)
(appointed as chairman on 4 April 2019)
Mr. Gu Weiping (resigned on 4 April 2019)
Mr. Zhao Juanxian (alias, Zhao Junxian)
(appointed on 4 April 2019)
Mr. Chau Kam Wing (appointed on 4 April 2019)

NOMINATION COMMITTEE

Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)
(resigned as chairman on 4 April 2019)
Mr. Chau Kam Wing (Chairman)
(appointed on 4 April 2019)
Mr. Zhang Weizhong (resigned on 4 April 2019)
Mr. Tsui Yiu Wa Alec (resigned on 4 April 2019)
Mr. Li Zhong (appointed on 4 April 2019)
Mr. Peng Yongzhen
Mr. Chang Qing

COMPANY SECRETARY

Mr. Cheng Wing Hong

AUTHORISED REPRESENTATIVES

Mr. Zhang Weizhong (resigned on 4 April 2019)
Ms. Liu Zhiwei (resigned on 4 April 2019)
Mr. Zhao Juanxian (alias, Zhao Junxian)
(appointed on 4 April 2019)
Mr. Li Zhong (appointed on 4 April 2019)

REGISTERED OFFICE

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

HEADQUARTER AND PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

No. 72
Avenue of Stars
High-Tech Park
North New Zone
Chongqing
The PRC

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Chater Road, Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor
Royal Bank House
24 Shedden Road
George Town
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
Luk & Partners
In Association with Morgan, Lewis & Bockius
Suites 1902–09
19th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Commerce & Finance Law Offices
6/F NCI Tower
A12 Jianguomenwai Avenue
Beijing
The PRC

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Chongqing Rural Commercial Bank
China Merchants Bank
Shanghai Pudong Development Bank
China CITIC Bank

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

STOCK CODE

6136

COMPANY WEBSITE

http://www.kangdaep.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the year 2018, we successfully coped with the challenges coming from the downturn of the industry and financial deleveraging. Focusing on core business and maintaining stable operation, the Company continued to grow. On behalf of the board (the "Board") of directors (the "Directors") of Kangda International Environmental Company Limited (the "Company") together with its subsidiaries (collectively, the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2018 to you.

RESULTS REVIEW

During the year 2018, thanks to the dedicated hard work of all our employees, we recorded encouraging results under the severe external condition of increasingly fierce peer competition and financial deleveraging. During the year ended 31 December 2018, the Group achieved a revenue of RMB3,021.3 million, representing an increase of approximately 20% as compared to the year 2017. During the year ended 31 December 2018, profit attributable to equity shareholders of the Group (the "Shareholders") was RMB303.4 million, representing a decrease of approximately 27% as compared to the year 2017, which is equivalent to basic earnings per share of RMB14.84 cents.

As at 31 December 2018, the Group entered into a total of 107 service concession agreements, including 100 wastewater treatment projects, 3 water distribution projects, 3 sludge treatment projects and 1 reclaimed water treatment project. As at 31 December 2018, the Group's daily treatment capacity was approximately 4,268,350 tonnes, representing an increase of approximately 4% as compared to the Group's daily treatment capacity of approximately 4,113,350 tonnes as at 31 December 2017.

INDUSTRY DEVELOPMENT

In respect of industry policy, the central government, following the 19th CPC National Congress, emphasized the fundamental state policy of advocating environment protection. On 1 January 2018, the Implementation Regulation on the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法實施條例》) came into effect, after which governments at various levels released corresponding supportive policies to fully effectuate the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅》). As such, the imposition and payment of corporate pollution taxes (legally changing from waste disposal fees to environmental protection tax) become more rigid and serious. In April 2018, following the restructuring of the State Council, the Ministry of Ecology and Environment was officially established which is responsible to regulate all types of waste disposal in ecological and urban areas as well as law enforcement. Also, the Ministry of Ecology and Environment discharges its regulatory responsibility on a scientific and prudent basis to entirely carry out the plan for air, water and soil pollution prevention. In July 2018, National Development and Reform Commission issued the Opinion on Innovating and Improving the Pricing System for the Promotion of Green Development (《關於創新和完善促進綠色發展價格機制的意見》), which proposed certain concrete measures to further perfect the wastewater treatment charging policy, including the establishment of a dynamic adjustment system for wastewater treatment, the establishment of a fare determination mechanism in line with the standard of wastewater treatment and the improvement in a market-driven charging mechanism for sewage treatment service. The general purpose of those measures is to accelerate the setting up of a pricing mechanism covering the cost and reasonable profits of sewage and sludge treatment and to induce market-driven sewage treatment service charge in order to make the sewage treatment charge in urban area to cover the service charge basically in a gradual manner. Sewage treatment industry continuously benefits from the above policies and measures.

CHAIRMAN'S STATEMENT

In respect of municipal wastewater industry, new market for sewage treatment has been limited and our focus has shifted towards upgrading and reformation projects and revitalizing existing projects. The Clean Water Action Plan（水十條） requires urban sewage treatment facilities in certain affluent regions to reach the first grade A discharge standard by the end of 2017. In addition, local standards in Beijing, Tianjin and Zhejiang are set above the national standards. Given the rising discharge standard, upgrading and reformation projects are intensively carried out in which advanced water treatment technology and optimized technique are applied. Thus, engineering, construction and operation management are improved to secure stable fulfillment of discharge standard after upgrading and reformation. The bloom of upgrading and reformation projects further strengthen the advantage of those companies enjoying greater market share in the industry.

Besides, the central government has tightened the approval for PPP projects in fields of water environment. Industry players have been turning their general priority from quantity increment to optimization of existing projects. The old days of explosive growth of PPP projects are long gone; instead, a rational and normal development has shown.

DEVELOPMENT STRATEGY AND FUTURE OUTLOOK

Currently, the environmental protection industry in PRC is facing both opportunities and challenges. We will fully seize the golden development opportunity coming with the environmental protection policies encouraged by the central government. With professional experience in the sewage treatment industry, the Group will continue to focus on the development of the principal business in sewage treatment with steady operation, risk control and prudent expansion, while it taps the potential of the existing projects and further enhances their profitability and improves operating cash flow of the Group through upgrading and expansion.

The Group will seek more efficient financing channels to enrich capital, reduce debt ratio, cut financing costs, and improve the debt structure so as to deal with the challenges throughout the interest-rate-hiking-cycle.

The Group will continue to improve operational efficiency, lower operating costs and management expenses, and thereby enhance profitability of the Group.

The Group will continuously promote innovation of internal management, optimize the salary structure, increase the proportion of performance compensation, and enhance motivation by adequately deploying staff; and will implement a talent cultivation program and strict assessment mechanism so as to constantly enhance talent competitive advantages of the Group.

Finally, I would like to take this opportunity to express our gratitude to all the Shareholders and all the collaborative partners of our Group for their dedicated support to the Group's development, and also to all staff of our Group for their endeavors and contributions made during the year.

Zhao Juanxian (alias, Zhao Junxian)
Chairman of the Board

Hong Kong, 28 March 2019

DEVELOPMENT STRATEGY AND FUTURE DEVELOPMENT

Environmental protection is a basic national policy of China, and the constantly upgrading standards for sewage discharge provide significant business opportunities for the sewage treatment industry. The Group will continue to focus on the development of its principal business in sewage treatment. With more than 20 years of professional experience in the wastewater treatment industry, the Group will adopt an extensional growth strategy of steady operation, risk control and prudent expansion, while it taps the potential of the existing projects in stock internally and further enhance profitability of the existing projects and improve operating cash flow of the Group through upgrading and expansion.

Focusing on the principal business of sewage treatment, the Group entered into several projects in 2018, including the Leping South Inland River Comprehensive Treatment EPC Project in Jiangxi Province, Taiyuan Fendong Wastewater Treatment Plant (Phase I) BOT Project in Shanxi Province, Jiulong Paper Industry Wastewater Comprehensive Utilization System Works BOT Project in Ninghe District of Tianjin City, and Longkou City Yongwen River Wastewater Treatment Plant BOT Project in Shandong Province.

The Group will seek more efficient financing channels to enrich capital, reduce debt ratio, cut financing costs, and improve the debt structure so as to deal with the challenges of the interest-rate-hiking-cycle.

The Group will continue to improve its operational efficiency, lower operating costs and management expenses, and thereby enhance profitability of the Group.

The Group will continuously promote innovation of internal management, optimize the salary structure, increase the proportion of performance compensation, and motivate the working enthusiasm of staffs of all levels. The Group will also implement a talent cultivation program and adopt a strict assessment mechanism so as to constantly enhance talent competitive advantages of the Group.

At the same time, we will actively establish strategic partnerships with upstream and downstream enterprises with synergistic effects to form complementary advantages and expand customer networks. The Group will also continue to expand to both upstream and downstream along the water industrial chain and engage in the businesses of water distribution, sludge disposal, recycling of reclaimed water and industrial wastewater treatment, etc., in order to seize competitive projects.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the year of 2018, the Group continued to execute the development strategy which was performed in the year of 2017. In order to match the Group's strategy, the Group conducted the divisions to focus on marketing, constructing and operating tightly.

Under the macroeconomic environment of strict supervision, deleveraging and risk prevention, the supply of funds has been greatly reduced, the financing difficulty of enterprises has increased accordingly, especially for the private enterprises, and the financing cost has increased substantially. The results of the Group was decreased due to the higher financing cost generated in the year of 2018. The Group adjusted the investments direction of the projects, which were mainly in the the fields of BOT projects, and strengthened the capital management so as to seize the prosperous opportunities in the fields of environmental protection in the future. The principal business of the Group includes Urban Water Treatment, Water Environment Comprehensive Remediation, Rural Water Improvement, etc.

The scope of Urban Water Treatment includes constructions and operations in Urban Water Treatment projects, reclaimed water treatment and usage, sludge disposal, water distribution, O&M (operation and maintenance of a water or wastewater treatment facility), etc. The Group has established the overall industry chain in Urban Water Treatment industry by executing contracts of BOT, TOT, Public-Private-Partnership (the "PPP"), Build-Own-Operate (the "BOO"), Engineering, Procurement and Construction (the "EPC") and O&M.

The scope of Water Environment Comprehensive Remediation includes river harnessing and improvement, foul water body remediation, sponge city construction, pipeline network projects, urban comprehensive pipe tunnel, etc. The Group engages in Water Environment Comprehensive Remediation by executing contracts of PPP and EPC.

The scope of Rural Water Improvement includes the construction and operation related to "the Construction of Beautiful Village", such as wastewater treatment, pipeline for collecting wastewater, rural living environment improvement, etc. The Group started to carry out this business in 2016 by executing the contracts of PPP.

In the future, the Group will continuously focus on the business of Urban Water Treatment to get steady cash flows for pursuing more high-quality market opportunities by investing in new projects. The Group is very confident about the Group's prospects and future profitability. And we will dedicate more efforts to enhancing the profitability and effectiveness of the Group.

1.1 Urban Water Treatment

As at 31 December 2018, the Group had entered into a total of 107 service concession arrangements projects, including 100 wastewater treatment plants, 3 water distribution plants, 3 sludge treatment plants and 1 reclaimed water treatment plant. Total daily treatment capacity of new wastewater treatment projects acquired during the year ended 31 December 2018 amounted to 315,000 tonnes. Total daily treatment capacity of wastewater treatment projects disposed of during the year ended 31 December 2018 amounted to 160,000 tonnes. Further details of the disposals are set out in the Company's announcements dated 25 July 2018. The Group will further expand its Urban Water Treatment chain in the future, in order to improve its profitability and competitiveness.

As at 31 December 2018, the Group's total daily treatment capacity was 4,268,350 tonnes, representing an increase of approximately 4% as compared with that of 4,113,350 tonnes as at 31 December 2017. The increase of the Group's service concession arrangements projects portfolio was a result of execution of its market expansion and development strategy.

Analysis of the Group's projects on hand as at 31 December 2018 is as follows:

	Daily wastewater treatment capacity	**Daily water distribution capacity**	**Daily reclaimed water treatment capacity**	**Daily sludge treatment capacity**	**Total**
(Tonnes)					
In operation	3,116,500	–	40,000	400	3,156,900
Not yet start operation/ Not yet transferred	900,000	211,300	–	150	1,111,450
Total	4,016,500	211,300	40,000	550	4,268,350
(Number of projects)					
In operation	81	–	1	2	84
Not yet start operation/ Not yet transferred	19	3	–	1	23
Total	100	3	1	3	107

	Number of projects	Treatment capacity (Tonnes/Day)	Actual processing volume during the year ended 31 December 2018 (Million Tonnes)
Wastewater treatment services			
Shandong	42	1,214,500	323.0
Henan	22	1,030,000	330.5
Heilongjiang	5	400,000	109.6
Zhejiang	2	250,000	81.6
Guangdong	4	220,000	11.2
Anhui	3	175,000	52.8
Shanxi	1	150,000	–
Jiangsu	6	102,000	27.4
Other provinces/municipalities*	15	475,000	65.6
	100	4,016,500	1,001.7
Water distribution services	3	211,300	–
Reclaimed water treatment services	1	40,000	3.2
Total	104	4,267,800	1,004.9
Sludge treatment services	3	550	–
Total	107	4,268,350	1,004.9

* Other provinces/municipalities include Beijing, Tianjin, Hebei, Jilin, Liaoning, Shaanxi, Sichuan, Jiangxi and Fujian.

1.1.1 Operation Services

As at 31 December 2018, the Group had 81 wastewater treatment projects, 1 reclaimed water treatment project, and 2 sludge treatment projects in operation in Mainland China. Total daily treatment capacity of wastewater treatment plants, reclaimed water treatment plant, and sludge treatment plants in operation for the year ended 31 December 2018 reached 3,116,500 tonnes (year ended 31 December 2017: 3,046,500 tonnes), 40,000 tonnes (year ended 31 December 2017: 40,000 tonnes), and 400 tonnes (year ended 31 December 2017: 350 tonnes), respectively. For the year ended 31 December 2018, the annualized utilization rate for wastewater and reclaimed water treatment plants in operation was approximately 85% (year ended 31 December 2017: 86%). The actual average water treatment tariff for the year ended 31 December 2018 was approximately RMB1.39 per tonne (year ended 31 December 2017: approximately RMB1.33 per tonne).The actual aggregate processing volume for the year ended 31 December 2018 was 1,004.9 million tonnes, representing an increase of approximately 14% (year ended 31 December 2017: 878.6 million tonnes).

Total operation revenue of the Group's Urban Water Treatment services recorded for the year ended 31 December 2018 was RMB819.7 million, representing an increase of approximately 18% (the year ended 31 December 2017: RMB695.0 million). The corresponding increase was primarily due to the commencement of operation of new water treatment projects through construction and business combination.

1.1.2 Construction Services

The Group entered into a number of service concession arrangements under BOT, BOO and PPP contracts in relation to its Urban Water Treatment business. Under the International Financial Reporting Interpretation Committee 12 Service Concession Arrangements, the Group recognises the construction revenue with reference to the fair value of the construction service delivered in the building phase. The fair value of such service is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of service concession agreement. Construction revenue from BOT, BOO, PPP and EPC projects is recognised by using the percentage-of-completion method.

For the year ended 31 December 2018, construction revenue was recognised for 33 projects, including 27 wastewater treatment plants, 3 water distribution plants, and 3 sludge treatment plants, which were mainly located in Henan, Shandong, Shanxi, Heilongjiang and Guangdong provinces in Mainland China. Total construction revenue of those projects for the year ended 31 December 2018 was RMB1,098.9 million, representing an increase of approximately 22% (year ended 31 December 2017: RMB 901.4 million). The corresponding increase was primarily due to an increase in construction work of new BOT and PPP projects. As at 31 December 2018, the total daily treatment capacity of the service concession arrangements plants, which was still in the construction stage, was 845,000 tonnes, including 665,000 tonnes of wastewater treatment plants and 180,000 tonnes of water distribution plants.

1.2 Water Environment Comprehensive Remediation

In the year of 2018, the Group devoted more efforts to evaluating risks and prudently implementing the projects of Water Environment Comprehensive Remediation under the conditions of PPP projects related policies changing in Mainland China. The Group entered into 2 PPP projects and 13 EPC projects in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China, of which the contract amount reached approximately RMB6,872.34 million (year of 2017: RMB6,589.97 million). Though the amount of signed PPP contracts reached a remarkable amount, the Group devoted efforts to lower the risk and enhance the reasonable profit. And the Group will integrate the resources to secure and execute the project in the business of Water Environment Comprehensive Remediation under the contracts of EPC and O&M.

The Group had 15 Water Environment Comprehensive Remediation projects under construction during the year ended 31 December 2018. The projects were mainly located in Henan, Hainan, Jiangxi, Shandong and other provinces in Mainland China. For the year ended 31 December 2018, total revenue of those projects was RMB457.3 million, representing an increase of approximately 17% (year ended 31 December 2017: RMB390.9 million). The corresponding increase was primarily due to an increase in commencement of the Group's construction work of new EPC projects.

1.3 Rural Water Improvement

In the year of 2018, the Group implemented 3 projects of Rural Water Improvement which were located in Guangdong and Guizhou Provinces. The Group will seize the opportunities brought about by the environmental protection policies implemented by the central government, to secure more high-quality environmental protection projects in this division in the coming years.

For the year ended 31 December 2018, total revenue of those projects was RMB101.6 million, representing an increase of approximately 48% (year ended 31 December 2017: RMB68.6 million). The corresponding increase was primarily due to an increase in commencement of construction work of the Group's new Rural Water Improvement projects.

FINANCIAL ANALYSIS

Revenue

For the year ended 31 December 2018, the Group recorded a revenue of RMB3,021.3 million, representing an increase of approximately 20% as compared to the previous corresponding period of RMB 2,523.9 million. The increase was mainly due to the increase in construction revenue of RMB298.2 million, the increase in operation revenue of RMB124.7 million, and the increase in financial income of RMB74.5 million. The increase in construction revenue was mainly due to the increase in commencement of construction work for the Group's new BOT, BOO, PPP and EPC projects, especially due to the new projects of Urban Water Treatment. The increase in operation revenue was mainly due to the increase in commencement of operation of new BOT and upgrade projects of Urban Water Treatment. The increase in financial income was mainly due to the increase in the Group's total water treatment capacity and the increased financial assets.

Cost of Sales

The Group's cost of sales for the year ended 31 December 2018 amounted to RMB1,928.1 million, including construction costs of RMB1,402.6 million and operation costs of water treatment plants of RMB525.5 million, and representing an increase of approximately 23% as compared to the previous corresponding period of RMB1,570.6 million. The increase was due to the increase in construction costs of RMB228.0 million and the increase in operation costs of RMB129.5 million. The increase in construction costs was mainly due to the increase in commencement of the Group's construction work of new projects for Urban Water Treatment services and Water Environment Comprehensive Remediation services. The increase in operation costs was in line with the increased daily treatment capacity in operation and the increase in commencement of operation of upgrade projects.

Gross Profit Margin

For the year ended 31 December 2018, gross profit margin was approximately 36%, representing a slight decrease of 2 percentage points as compared to the previous corresponding period of approximately 38%. The decrease was mainly due to relative low gross profit margin of the newly commenced operation BOT projects and upgrade projects during the period.

Other Income and Gains

The Group recorded other income and gains of RMB218.5 million for the year ended 31 December 2018, representing an increase of approximately 15% as compared to the previous corresponding period of RMB190.7 million. The amount for this period primarily included government grants of RMB119.4 million, which mainly comprised of VAT refund under "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources (CaiShui [2015] No. 78)" (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知) (財稅[2015]78號文)) and grants for environmental protection, bank interest income of RMB7.5 million, interest income of RMB40.3 million from loans to third parties, interest income of RMB6.0 million from loans to an associate and joint ventures, gains on disposal of subsidiaries of RMB23.2 million, dividend income of RMB14.3 million and other investment income of RMB4.8 million.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended 31 December 2018 was RMB14.2 million, representing an increase of approximately 18% as compared to RMB12.0 million of the previous corresponding period, which was a result of continuously ongoing market expansion strategy.

Administrative Expenses

Administrative expenses for the year ended 31 December 2018 was RMB284.5 million, representing an increase of approximately 2% as compared to the previous corresponding period of RMB278.9 million. The increase was mainly due to the increase in staff costs of RMB10.9 million which was caused by the increase of new companies operated in line with the Group's expansion plan and the increase in taxation and surcharge amounted to RMB5.7 million, partially offset by the decrease in share option expense amounted to RMB7.1 million.

Other Expenses

Other expenses for the year ended 31 December 2018 was RMB50.8 million, representing a climb increase as compared to the previous corresponding period of RMB7.8 million. The amount for this period primarily included losses on disposal of an associate RMB8.2 million, write-off of BT receivables and impairment of trade receivables and other receivables of RMB26.2 million and losses on foreign exchanges of RMB12.4 million.

Finance Costs

Finance costs for the year ended 31 December 2018 of RMB498.6 million mainly comprised of interests on interest-bearing bank borrowings and corporate bonds, representing an increase of approximately 40% as compared to RMB354.9 million in the previous corresponding period. The increase in finance costs was mainly due to, the increase of interest-bearing bank borrowings and corporate bonds in line with the increase in project portfolio, and higher financing cost lead by the macroeconomic environment under the strict supervision, deleveraging and risk prevention. The average balance of interest-bearing bank borrowings and corporate bonds increased by RMB1,734.3 million and the average interest rate was 5.64%, representing an increase of 0.65 percentage points as compared to that in the previous corresponding period. Due to the rapid increase in finance costs, the profit of the Group decreased accordingly. The Group will seek practical way to lower the average interest rate in the coming year.

Share of Profits and Losses of Associates

Share of losses of associates for the year ended 31 December 2018 was RMB5.6 million, representing a sharply decrease as compared to share of profits of associates of RMB43.7 million in the previous corresponding period, primarily due to the recognised profits of RMB41.0 million in previous year from the Group's associate Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司) acquired on 30 September 2016 and re-classified as "available-for-sale financial investment" on 30 September 2017, and that the Group's associate Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司) was disposed of in June 2018.

* *For identification purposes only*

Share of Profits and Losses of Joint ventures

Share of losses of joint ventures for the year ended 31 December 2018 was RMB2.3 million, representing a decrease as compared to the share of profits of RMB2.6 million in the previous corresponding period, primarily because the projects execution progress of the joint ventures is slower than expectation.

Income Tax Expense

Income tax expense for the year ended 31 December 2018 included the current PRC income tax of RMB73.2 million and deferred tax expenses of RMB72.6 million, which were RMB70.7 million and RMB38.5 million for the previous corresponding period, respectively. The Group's effective tax rate for the year ended 31 December 2018 was approximately 32%, representing an increase of 12 percentage points as compared with 20% for the last corresponding period, which was mainly because of (i) the increase in unrecovered tax losses returned, (ii) the increase in the tax effect of tax losses not recognized, (iii) the increased income tax aroused from the gains on disposal of subsidiaries, (iv) the decrease in the tax effect of share of profits and losses of associates and joint ventures, (v) the decrease in the tax losses utilised from previous periods , and (vi) partial offset by the increase of tax exemption.

Financial Receivables

	As at	
	31 December 2018 RMB'000	31 December 2017 RMB'000
Receivables for service concession arrangements	**7,831,580**	9,087,022
Subtotal of financial receivables	**7,831,580**	9,087,022
Portion classified as current	**1,400,911**	1,410,155
Non-current portion	**6,430,669**	7,676,867

As at 31 December 2018, the Group's financial receivables were RMB7,831.6 million. According to IFRS 15 — Revenue from contracts with customers and the related amendments, the financial receivables related to the projects under construction were reclassified as contract assets, in which current portion amounted to RMB112.0 million and non-current portion amounted to RMB1,814.1 million, respectively. If reclassification is not conducted, the financial receivables should be RMB9,757.7 million, representing an increase of approximately 7% as compared to that of RMB9,087.0 million as at 31 December 2017. The increase would be primarily due to the increase in construction of the Group's service concession arrangements projects under BOT and PPP contracts and the acquisition of wastewater treatment projects through business combination.

Contract Assets

	As at 31 December 2018 RMB'000	31 December 2017 RMB'000
Contract assets	**2,491,404**	–
Portion classified as current	**209,474**	–
Non-current portion	**2,281,930**	–

As at 31 December 2018, the Group's contract assets was RMB2,491.4 million (31 December 2017: Nil), The Group applies IFRS 15 — Revenue from contracts with customers and the related amendments from 1 January 2018. According to the related requirements of IFRS 15, the assets related to the projects under construction were reclassified as contract assets. The amount of contract assets of RMB2,491.4 million was reclassified from service concession intangible assets of RMB467.9 million, financial receivables of RMB1,926.1 million (consisting of current portion of RMB112.0 million and non-current portion of RMB1,814.1 million) and construction contracts of RMB97.4 million, which were stated as in previous periods.

Trade and Bills Receivables

As at 31 December 2018, the Group's trade and bills receivables of RMB1,296.0 million (31 December 2017: RMB1,146.1 million) mainly arose from the provision of wastewater treatment and sludge treatment services for Urban Water Treatment projects as well as construction services for the Group's Water Environment Comprehensive Remediation projects. The balance increased by RMB149.9 million, mainly due to (i) the increase of Urban Water Treatment projects receivables of approximately RMB102.3 million, (ii) the net increase of Water Environment Comprehensive Remediation projects receivables of approximately RMB46.6 million, which included EPC project receivables of approximately RMB347.7 million arose from the progress billing and cash collected from EPC and BT projects of approximately RMB271.8 million, and (iii) write-off of BT receivables and impairment for receivables of RMB29.3 million.

Prepayments, Other Receivables and Other Assets

As at 31 December 2018, the Group's prepayments, other receivables and other assets of RMB1,046.4 million (31 December 2017: RMB823.8 million) increased by RMB222.6 million, mainly arose from the increase in loans to an associate and joint ventures of approximately RMB106.9 million, the increase in prepayments of approximately RMB17.8 million related to wastewater treatment plants construction, the increase in deductible input VAT of approximately RMB90.1 million, the increase in other operational receivables and accrued interests of approximately RMB44.5 million, the increase in provision for impairment of approximately RMB7.5 million, and decrease from deposits and staff advances of approximately RMB29.2 million.

Cash and Cash Equivalents

As at 31 December 2018, the Group's cash and cash equivalents of RMB976.2 million (31 December 2017: RMB1,689.6 million) decreased by RMB713.4 million as compared with that as at the end of previous period. The decrease was due to the increase in cash outflows in investing activities of the Group.

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash flows used in operating activities[1]	**(126,727)**	(812,723)
Net cash flows used in investing activities	**(864,909)**	(479,452)
Net cash flows from financing activities	**276,348**	2,310,139
Net (decrease)/increase in cash and cash equivalents	**(715,288)**	1,017,964
Effect of foreign exchange rate changes	**1,901**	(3,616)
Cash and cash equivalents at beginning of the period	**1,689,633**	675,285
Cash and cash equivalents at end of the period	**976,246**	1,689,633

Note:

(1) For the years ended 2018 and 2017, the Group invested RMB767.1 million and RMB1,213.4 million, respectively, in the Group's BOT, TOT and PPP projects. Such investments were counted towards cash flows used in operating activities. Under the relevant accounting treatment, part of such cash outflows used in operating activities was used to form the non-current portion of financial receivables and contract assets in the Group's consolidated statement of financial position. For the years ended 31 December 2018 and 2017, the Group would have incurred cash inflows of RMB640.4 million and RMB400.7 million, respectively, if the Group's investments in BOT, TOT and PPP activities were not accounted for as cash flows used in operating activities.

Trade and Bills Payables

As at 31 December 2018, the Group's trade and bills payables of RMB1,638.3 million (31 December 2017: RMB1,290.5 million) increased by RMB347.8 million, which was in line with the increase of the Group's construction work carried out and the settlements.

Other Payables and Accruals

As at 31 December 2018, the Group's other payables and accruals of RMB507.0 million (31 December 2017: RMB514.5 million) decreased by RMB7.5 million, which was mainly due to the decrease of advance payment from customers caused by the increase of the settlements of the Group's construction work.

Liquidity and Financial Resources

The Group's principal liquidity and capital requirements primarily relate to investments in Urban Water Treatment projects, Water Environment Comprehensive Remediation projects, and Rural Water Improvement projects, merger and acquisition of subsidiaries, costs and expenses related to the operation and maintenance of the Group's facilities, working capital and general corporate purpose.

As at 31 December 2018, the carrying amount of the Group's cash and cash equivalents was RMB976.2 million, representing a decrease of approximately RMB713.4 million as compared to RMB1,689.6 million as at 31 December 2017, which was mainly due to the net cash inflows from financing activities of RMB276.3 million, settlements of acquisition and investing payables amounted to RMB210.2 million and cash outflows of RMB131.7 million for purchases of property, plant and equipment and intangible assets from investing activities, purchases of other non-current financial assets amounted to RMB793.0 million, loans to an associate and joint ventures amounted to RMB105.0 million from investing activities, cash inflows of RMB325.9 million for disposal of subsidiaries and an associate from investing activities, cash inflows of RMB28.3 million for dividends from investing activities, and the net cash outflows of RMB126.7 million from operating activities.

The Group's total interest-bearing bank borrowings amounted to RMB7,096.0 million as at 31 December 2018 (31 December 2017: RMB6,395.1 million), over 75% of which bear interest at floating rates.

The Group's total corporate bonds amounted to RMB2,140.5 million as at 31 December 2018 (31 December 2017: RMB2,048.8 million), which comprised of corporate bonds issued on 18 December 2015, 30 June 2016, 19 April 2018, 3 September 2018 and 13 June 2018, with an aggregate amount of RMB900.0 million, RMB60.0 million, RMB300.0 million, RMB300.0 million and RMB300.0 million, respectively. All the corporate bonds bear interest at fixed rates.

On 10 August 2018, the Group received a net cash amount of RMB319.0 million through the issuance of asset-backed securities of RMB360.0 million in the Shanghai Stock Exchange bearing interest at the rate of 7.5% per annum. The Group invested RMB30.0 million in such ABS as a deferred ABS holder and RMB11.0 million as a preferred ABS holder.

As at 31 December 2018, the Group had banking facilities amounting to RMB57,724.2 million, of which RMB49,891.0 million have not been utilised. Of the unutilised banking facilities as at that date, RMB320.0 million were unrestricted facilities and the remaining RMB49,571.0 million were restricted facilities, of which RMB49,044.0 million were mainly limited to be utilized on environmental protection infrastructure and comprehensive management, and RMB527.0 million were mainly limited to be utilized for supplement of current loans to the Group .

As at 31 December 2018, the gearing ratio of the Group (calculated by net debt divided by capital and net debt) was 70%, while the gearing ratio was 67% as at 31 December 2017. The increase of gearing ratio is mainly due to the increase of the interest-bearing bank and other borrowings and issuance of corporate bonds for the new investments and acquisitions.

Charges on the Group's Assets

Outstanding balance of interest-bearing bank and other borrowings as at 31 December 2018 was approximately RMB7,096.0 million, which were repayable within one month to twenty-seven years and were secured by financial receivables, service concession intangible assets, properties, plants and equipment, trade receivables, contract assets and pledged deposits, of which the total amounts of the pledge of assets amounted to RMB6,883.0 million.

Capital Expenditure

During the year ended 31 December 2018, the Group's total capital expenditure were RMB1,230.7 million, compared to RMB1,898.2 million in 2017, primarily including the consideration of approximately RMB1,009.4 million for construction and acquisition of BOT, TOT, BOO and PPP projects and the consideration of approximately RMB216.4 million for acquisition of equity interests in subsidiaries, associates and a joint venture.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

On 1 January 2018, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired 100% interest in Sichuan Weiyuan Hefeng Bioengineering Co., Ltd. (四川威遠禾豐生物工程有限公司) ("Weiyuan Hefeng"). The consideration was RMB100.3 million. In addition, Chongqing Kangda shall assume Weiyuan Hefeng's credit rights of approximately RMB6.5 million, and liabilities of approximately RMB9.1 million. The daily treatment capacity gained through acquisition of Weiyuan Hefeng was 20,000 tonnes for wastewater treatment. The equity transfer agreement was entered into on 13 October 2017, while the transaction was finally completed on 1 January 2018.

Further details of the transaction were set out in the Company's announcement dated 13 October 2017.

DISPOSAL OF SUBSIDIARIES

On 18 August 2018, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, disposed of all of its 99% interest in Yanggu County Guohuan Sewage Treatment Co., Ltd., 99% interest in Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd., 100% interest in Ningguo Chengjian Sewage Treatment Co., Ltd., and 100% interest in Anhui Province Chengjian Huashan Sewage Treatment Co., Ltd. to Jinfeng Environmental Protection Co., Ltd. for a total consideration of approximately RMB294,165,000, of which RMB253,289,000 have been received during the year ended 31 December 2018 and RMB40,876,000 remained unsettled at 31 December 2018.

Further details of the transaction were set out in the Company's announcement dated 25 July 2018.

EMPLOYEES AND REMUNERATION POLICIES

The Group had 2,308 employees as at 31 December 2018. The remuneration package of the Group is generally determined with reference to market conditions and individual performance. Salaries are normally reviewed annually based on performance appraisals and other relevant factors. The Group provides external and internal training programs to its employees.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (31 December 2017: Nil).

FOREIGN EXCHANGE RISK

Majority of the subsidiaries of the Company operate in the PRC with most of the transactions denominated and settled in RMB. As at 31 December 2018, except for the bank deposits and certain amount of interest-bearing bank borrowings denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2018.

PROPOSED FINAL DIVIDEND

The Board did not recommend payment of the final dividend for the year ended 31 December 2018 (year ended 31 December 2017: RMB2.0 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both days inclusive, during which period no transfer of Shares can be registered. The record date for entitlement to attend and vote at the Annual General Meeting is Wednesday, 5 June 2019. In order to be qualified for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 30 May 2019.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and permitted under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), are held by the public at all times during the year ended 31 December 2018 and up to the date of this annual report.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Listing Rules and there has been no deviation from the code provisions as set forth under the Corporate Governance Code for the year ended 31 December 2018. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Corporate Governance Code.

AUDIT COMMITTEE

As at 31 December 2018, the audit committee of the Company (the "Audit Committee") consisted of three independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing and Mr. Tsui Yiu Wa Alec serves as the chairman of the Audit Committee.

The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The Audit Committee has reviewed and approved the final results for the year ended 31 December 2018 and discussed the internal control and risk management systems. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Federation of Accounts and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

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

Pursuant to the general mandate granted by the Shareholders to the Directors at the annual general meeting held on 25 May 2017 and 14 June 2018, the Company repurchased a total of 28,980,000 ordinary shares of the Company on the Hong Kong Stock Exchange during the year ended 31 December 2018 at an aggregate consideration of approximately HK$37,226,370 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	**Number of ordinary shares repurchased**	**Price per Share** (HK$)		**Aggregate Consideration paid**
		Highest	Lowest	(HK$)
February 2018	5,260,000	1.62	1.46	8,299,550
June 2018	23,720,000	1.28	1.17	28,926,820

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board is responsible and has general powers for the management and operation of the Group's business. The Board currently consists of nine Directors, including six executive Directors and three independent non-executive Directors.

The Biographical details of the Directors during the year ended 31 December 2018 and up to the date of this annual report are set out below:

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢), aged 66, is the founder of the Group. He is an executive Director, and the chairman of the Board (the "Chairman") of the Company, responsible for strategic development and planning, overall operational management, market development and major decision making. He was appointed as a Director on 22 August 2011. He has acted as a director and the chief executive officer of Chongqing Kangda since the beginning of the establishment of Chongqing Kangda and ceased to be the chief executive officer of Chongqing Kangda in September 2012. Mr. Zhao has served as the chairman of the board of directors and general manager of Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd.* (重慶康特環保產業控股有限公司) since November 1994. He has also served as a director of Jilin Kangda Environmental Protection Co., Ltd.* (吉林康達環保有限公司) ("Jilin Kangda") and Hebi Kangda Water Co., Ltd.* (鶴壁康達水務有限公司) ("Hebi Kangda") since September 2011 and February 2012, respectively. He graduated from the political administration at elementary level* (黨政幹部基礎科專業) from Sichuan University* (四川大學) located in Chengdu City, Sichuan Province, and Sichuan Higher Vocational and Examination Committee* (四川省高等中專教育自學考試指導委員會) in June 1988, and attended a one-month education programme of Sichuan foreign-related business from Shenzhen University* (深圳大學) located in Shenzhen City, Guangdong Province, in July 1988.

Mr. Zhao Juanxian has about 26 years of experience in the environmental protection and wastewater treatment industry and was awarded for several times for his valuable contribution to the development of environmental protection and his expertise in environmental protection technology by relevant environmental protection industry associations from 2004 to 2009. Mr. Zhao Juanxian was granted the title of Outstanding Environmental Technology Entrepreneurs by the Chinese Society for Environmental Sciences* (中國環境科學學會) in September 2004. He received the China Environmental Protection Industry Development Award granted by the China Association of Environmental Protection Industry* (中國環境保護產業協會) in January 2005. He was also granted the title of Outstanding Individual of Environmental Protection by the People's Government of Chongqing Municipal* (重慶市人民政府) in July 2006 and Outstanding Entrepreneur of China Environmental Protection Industry by China Association of Environmental Protection Industry* (中國環境保護產業協會) in October 2009. Mr. Zhao Juanxian served as the vice president of the 3rd and 4th Session of Chongqing Municipal Environmental Protection Industry Association* (重慶市環境保護產業協會第三屆及第四屆理事會) in 2005 and 2012, respectively, and the vice president of the 3rd and 4th Session of China Association of Environmental Protection Industry* (中國環境保護產業協會第三屆及第四屆理事會) in 2005 and 2009, respectively. In January 2015, he served as the vice chairman of the board of directors of China State-owned Industry Innovation Alliance (中國國資國企產業創新戰略聯盟) and the vice chairman of the board of directors of Hong Kong-Mainland International Investment Society (香港國際投資總會), respectively.

* *For identification purposes only*

Mr. Zhang Weizhong (張為眾), aged 67, was the Company's chief executive officer (the "Chief Executive Officer") and an executive Director. He was appointed as the Director on 15 March 2013. He was appointed as the president of Chongqing Kangda on 25 September 2012. He completed a nine-month training programme of financial accounting in Sichuan Institute of Finance and Economics* (四川財經學院, currently known as Southwestern University of Finance and Economics* (西南財經大學)) located in Chengdu City, Sichuan Province, from October 1980 to July 1981 and graduated from Sichuan Radio and TV University* (四川廣播電視大學) located in Chengdu City, Sichuan Province, with a college degree* (大學專科) in industrial accounting in July 1986. Mr. Zhang Weizhong has over 30 years of experience of management and has obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in December 1988. He was granted the title of Outstanding Accountant by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 1982, Outstanding Accountant by Shizhong District Government of Chongqing* (重慶市市中區人民政府) in December 1982 and Senior Accounting Worker by Sichuan Province Government* (四川省人民政府) in December 1986. In January 2015, he served as the deputy secretary-general of China State-owned Industry Innovation Alliance (中國國資國企產業創新戰略聯盟).

Mr. Zhang Weizhong has served as an executive director of the Painting Branch of China Chemical Accounting Association* (中國化工會計學會塗料分會) since November 1991 and an executive director of Hainan Association of Chief Accountant* (海南省總會計師協會) since December 2004. Mr. Zhang held directorships in China Huandao (Group) Limited Company* (中國寰島集團公司), Sea Master Finance Limited (海領財務公司) and Cheer Harvest Industries Limited (資合實業有限公司). In addition, he was also the general manager and chairman of Huandao South Development Limited Company* (寰島南方實業發展有限公司), as well as the general manager and legal representative of Haikou Haidian Island Real Estate Development Limited Company* (海口海甸島房地產開發總公司). Even though Mr. Zhang held directorships and other management positions in other companies, Mr. Zhang has confirmed that his respective employments in other companies will not materially affect the discharge of his duties to the Company.

Mr. Zhang Weizhong has resigned on 4 April 2019 before the expiration of his term of appointment.

Ms. Liu Zhiwei (劉志偉), aged 54, was an executive Director and was appointed as a Director on 15 May 2012. She joined the Group in 1996 and has served various positions, including chief accountant, chief officer of asset management department, deputy chief financial officer, audit director, executive director and vice president, and is currently responsible for the investor relationship and risk control matters of the Group. Ms. Liu has approximately 20 years of experience in the field of accounting. She obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 2000.

Ms. Liu Zhiwei has resigned on 4 April 2019 before the expiration of his term of appointment.

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. Gu Weiping (顧衛平), aged 64, was an executive Director and was appointed as a Director on 15 May 2012. He joined the Group in 1996 and has served various positions, including general manager assistant, vice president and deputy chairman. He is currently responsible for the management of administrative and human resource affairs of the Group. He has also served as a director of Hebi Kangda and Kangda (Dongying) Environmental Protection Water Co., Ltd.* (康達(東營)環保水務有限公司) since February 2012 and November 2012, respectively. He completed the training course on administration and management for two years and graduated in political management and administration at elementary level* (黨政管理幹部基礎專修科專業) from Sichuan Radio and TV University* (四川廣播電視大學) located in Chongqing Municipal, in July 1986. He obtained the qualification of environmental engineer in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in September 1993. Mr. Gu Weiping has over 35 years of experience in the environmental protection industry. The research project he participated, namely the Research on the National Environmental Monitoring Standardisation of Analytical Methods* (全國環境監測分析方法標準化研究), won the Second Prize of Environmental Protection Science and Technology Progress Award* (環境保護科學技術進步二等獎) granted by the National Environmental Protection Bureau* (國家環境保護局) in October 1987. He was awarded by the People's Government of Chongqing Municipal* (重慶市人民政府) for his outstanding contribution to the development of engineering technology and projects on wastewater treatment in 1998 and 2011.

Mr. Gu Weiping has resigned on 4 April 2019 before the expiration of his term of appointment.

Mr. Wang Litong (王立彤), aged 50, was an executive Director and was appointed as a Director on 30 October 2013. He was appointed as the vice president of Chongqing Kangda in charge of marketing department, technology management department and water projects management department on 28 July 2011. He is currently in charge of the marketing and business development of the Group. He has also served as a director of Jilin Kangda since September 2011. He graduated from Tianjin Institute of Technology* (天津理工學院, currently known as Tianjin University of Technology* (天津理工大學)) located in Tianjin, with major in mechanical design in July 1991. He has more than 27 years of experience in relation to municipal environmental protection and was involved in a number of projects in municipal environmental design engineering, sewage treatment, solid waste disposal and research work on environmental protection facilities. Mr. Wang obtained the qualification of senior engineer in the PRC granted by the Tianjin Human Resource and Social Security Bureau* (天津市人力資源和社會保障局) in December 2010, and he has served as a member of the Committee for Drainage of Civil Engineering* (土木工程學會排水委員會) since November 2012. He has participated in the compilation of 10 sets of national standards in technology of construction and has been recognised by the Ministry of Housing and Urban – Rural Development of the PRC (中華人民共和國住房和城鄉建設部) for his outstanding consultancy, project design and development of technology.

Mr. Wang Litong has resigned on 4 April 2019 before the expiration of his term of appointment.

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Tianci (王天賜), aged 50, was an executive Director and was appointed as a Director on 26 May 2017. He is currently in charge of the finance and fund operation of the Group. He graduated from Zhejiang University* (浙江大學) in July 1992 with a bachelor degree in economics and from Northeastern University* (東北大學) in April 2013 with a doctor degree in management. Mr. Wang previously held various positions in several sub-branches and functional departments of Hainan branch of Bank of China* (中國銀行海南省分行), including the president of the Dongfang sub-branch of Bank of China* (中國銀行東方市支行) from January 2005 to January 2009, the general manager of the sales department of the Hainan branch of Bank of China* (中國銀行海南省分行) from January 2009 to May 2011, the president of the Meishehe sub-branch of Bank of China in Haikou City* (中國銀行海口市美舍河支行) from May 2011 to March 2014, and the general manager of the risk management department of the Hainan branch of Bank of China* (中國銀行海南省分行) from March 2014 to November 2014. Since December 2014, Mr. Wang has been serving as the vice president of Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業(集團)有限公司), an indirectly wholly-owned subsidiary of the Company, the general manager of Kangrun (Shenzhen) International Finance Leasing Co., Ltd.* (康潤(深圳)國際融資租賃有限公司) and a director of Zhongyuan Asset Management Co., Ltd.* (中原資產管理有限公司), concurrently.

Mr. Wang Tianci has resigned on 4 April 2019 before the expiration of his term of appointment.

Mr. Li Zhong (李中), aged 50, is an executive Director and was appointed as a Director on 4 April 2019. Mr. Li Zhong graduated from Beijing University of Chemical Technology* (北京化工大學) with a major in polymer materials, and obtained a master degree in business administration from Saint Mary's University of Canada in 1997. He holds registered engineer certifications from both the PRC and Canada, and has served in national state-owned enterprises, US-based enterprises in the PRC and Hong Kong for over 20 years. Since 2002, he has dedicated himself to urban public utilities with a focus on water affairs, as well as the investment, management and operation of infrastructure projects. Since 2004, he has been a director of Shenzhen Bus Group Co. Ltd. Mr. Li Zhong also serves as deputy president of China Environment Chamber of Commerce, a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議深圳市委員會常委), and the honorary chairman of the Hong Kong Volunteers Association. Currently, he is also an executive director of China Water Affairs Group Limited ("China Water", a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 855).

Ms. Liu Yu Jie (劉玉杰), aged 55, is an executive Director and was appointed as a Director on 4 April 2019. Ms. Liu Yu Jie graduated from University of International Business and Economic* (對外經濟貿易大學) located in Beijing and obtained a master degree in business administration. Ms. Liu Yu Jie has been working in Hong Kong, Singapore and the PRC for over 20 years in total and is familiar with the business environment and regulatory system of the three places. She has comprehensive experience in capital market, business promotion and corporate management, participated in IPO and underwriting of over 30 companies on the Hong Kong Stock Exchange, led and completed merger and acquisition of three companies in Hong Kong and Singapore, assisted capital raising and management of large-scale industrial fund for investment in the PRC, and acted as executive directors of listed companies in Hong Kong and Singapore which engaged in utilities and infrastructure investment. Currently, she is also an executive director of New Universe Environmental Group Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 436), an executive director of China Water and an independent non-executive director of Zhongyu Gas Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3633).

* *For identification purposes only*

Mr. Duan, Jerry Linnan (段林楠), aged 28, is an executive Director and was appointed as a Director on 4 April 2019. Mr. Duan, Jerry Linnan is studying in Beijing Normal University and majors in psychology. He joined China Water as the president assistant in 2011, mainly focusing on hotel operating and intelligent water businesses. At the same time, Mr. Duan, Jerry Linnan assisted the directors of China Water in capital market and investor relations, etc. In 2015, Mr. Duan, Jerry Linnan was appointed as the general manager of the hotel under China Water in Nanjing, and was in charge of the construction, procurement and daily operation of various hotels of China Water. Mr. Duan, Jerry Linnan has comprehensive experiences in human resources and corporate management.

Independent non-executive Directors

Mr. Tsui Yiu Wa Alec (徐耀華), aged 69, was an independent non-executive Director. He joined the Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Tsui graduated from the University of Tennessee located in Knoxville, Tennessee, the US, with a bachelor degree in science in industrial engineering in June 1975 and a master degree in engineering in June 1976 and completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University located in Cambridge, Massachusetts, the US, in August 1993. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management.

Mr. Tsui Yiu Wa Alec served various positions, including the chief executive of the Hong Kong Stock Exchange from February 1997 to July 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司) from March 2000 to July 2000 and the chairman of Hong Kong Securities Institute (香港證券專業學會) from December 2001 to December 2004. Mr. Tsui has been the chairman of the board of directors of WAG Worldsec Corporate Finance Limited (香港華高和昇財務顧問有限公司), a private company which provides professional consulting services and financial solutions to corporations, since February 2006, mainly responsible for overall strategic direction and operational management, and had resigned as the chairman and director of WAG Worldsec Corporate Finance Limited on June 2016.

Mr. Tsui is also an independent non-executive director of Industrial and Commercial Bank of China (Asia) Limited and Zhuhai Da Heng Qin Company Limited. He is also an independent non-executive director of a number of listed companies in Hong Kong, namely, COSCO Shipping International (Hong Kong) Limited, Hua Medicine, Melco Resorts & Entertainment Limited, Pacific Online Limited, Summit Ascent Holdings Limited, and DTXS Silk Road Investment Holdings Company Limited as well as independent non-executive director of certain companies listed overseas including ATA INC (listed on National Association of Securities Deal Automated Quotation (NASDAQ) in the US), and Melco Resorts & Entertainment (Philippines) Corporation (listed in the Republic of Philippines).

Mr. Tsui Yiu Wa Alec has resigned on 4 April 2019 before the expiration of his term of appointment.

* *For identification purposes only*

Mr. Chang Qing (常清), aged 61, is an independent non-executive Director. He joined the Group on 8 January 2016 when he was appointed as an independent non-executive Director. Mr. Chang graduated from the Chinese Academy of Social Sciences* (中國社會科學院) with a doctorate degree in agricultural economics and management in 2001, graduated from Jilin University (吉林大學) with a bachelor's degree in economics in 1982 and a master's degree in national economics in 1985. Mr. Chang had successively served as a research assistant, a deputy research fellow and a research fellow of Development Research Center of the State Council (國務院發展研究中心) from 1985 to 2005 and the vice chairman of China Futures Association (中國期貨業協會) from 1999 to 2006. Mr. Chang has worked in the College of Economics and Management of China Agriculture University (中國農業大學經濟管理學院) since 2005. He has also served as the chairman of the board of Jinpeng International Futures Co., Ltd (金鵬期貨經紀有限公司) since 1993.

Mr. Chang has served as an independent non-executive director of China Chengtong Development Group Limited (中國誠通發展集團有限公司), which is listed on the Hong Kong Stock Exchange (stock code: 00217), and as an independent director of Tibet Summit Industry Co., Ltd.* (西藏珠峰工業股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600338), and Tebian Electric Apparodus Stock Co., Ltd. (特變電工股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 600089), since January 2013, June 2011 and September 2015, respectively. He served as an independent director of Shenwu Environmental Technology Co., Ltd (神霧環保技術股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 300156), from September 2008 to August 2015, and as an independent director of Rongfeng Holding Group Co., Ltd. (榮豐控股集團股份有限公司), which is listed on the Shanghai Stock Exchange (stock code: 000668), from August 2007 to September 2013.

Mr. Peng Yongzhen (彭永臻), aged 70, is an independent non-executive Director. He joined the Group on 26 February 2015 when he was appointed as an independent non-executive Director. Mr. Peng graduated from Harbin Institute of Technology* (哈爾濱工業大學) (formerly known as Harbin University of Architecture and Engineering (哈爾濱建築大學), the same below) in June 1995 with a doctor degree in environmental engineering and was a senior visiting scholar in Gunma University (日本群馬大學) from October 1996 to April 1997. Mr. Peng previously held various positions in water supply and sewerage engineering major in the urban construction department of Harbin Institute of Technology* (哈爾濱工業大學), including the teaching assistant position from September 1976 to October 1978, the teaching assistant, lecturer and associate professor positions from December 1981 to September 1993, and the professor position from September 1993 to February 2000. Since 2000, he has been a chief professor of the environment engineering department, a professor, a tutor of doctoral candidates and the chief of the environmental engineering department and water pollution control research laboratory in Beijing University of Technology* (北京工業大學), and the chief of Beijing Engineering Technology Research Center of Sewage Nitrogen and Phosphorus Removal* (北京市污水脫氮除磷處理工程技術研究中心) of Beijing University of Technology, concurrently.

He has long been engaged in the research of urban sewage disposal measures, of which some technological achievements have been massively applied into practice. Mr. Peng has earned diverse national-level titles and awards for his academic achievements, including without limitations National Role Model Lecturer* (全國模範教師) in 2007, National Outstanding Faculty* (國家教學名師) in 2009 and National Excellent Technical Personnel* (全國優秀科技工作者) in 2012. He was selected to be one of the first talents sponsored by National Special Support Plan for High-level Personnel* (國家高層次人才特殊支持計劃) in 2013. He was granted the Second Prize of National Prize for Progress in Science and Technology* (國家科技進步獎) in 2004, 2009 and 2012, respectively, and the First Prize of Beijing Municipal Prize for Progress in Science and Technology* (北京市科技進步獎) in 2012. Mr. Peng received a special allowance from China's State Council in 2000.

* *For identification purposes only*

Mr. Chau Kam Wing (周錦榮), aged 56, is an independent non-executive Director and was appointed as a Director on 4 April 2019. Mr. Chau Kam Wing obtained a master degree in business administration from the University of San Francisco in the United States in 2000. Mr. Chau Kam Wing has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed on the Hong Kong Stock Exchange. Mr. Chau Kam Wing is currently the finance director of Winox Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 6838) and an independent non-executive director of each of Carpenter Tan Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 837), Ching Lee Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3728) and China Water. Mr. Chau Kam Wing is also an independent non-executive director of each of Eco-Tek Holdings Limited (a company listed on GEM of the Hong Kong Stock Exchange, stock code: 8169) and Zhejiang Chang'an Renheng Technology Co., Ltd. (a company listed on GEM of the Hong Kong Stock Exchange, stock code: 8139). He is also a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

The biographical details of the senior management of the Company during the year ended 31 December 2018 and up to the date of this annual report are set out below:

Mr. Li Zhaoliang (李兆梁), aged 41, was the chief financial officer of the Group primarily responsible for overseeing and coordinating the operation of the Group's finance department and managing the accounting and taxation functions of the Group. He joined the Group in July 2016 and was appointed as the deputy chief financial officer of the Company on 10 August 2016. On 29 August 2017, he was appointed as the chief financial officer of the company. Mr. Li graduated from Renmin University of China (中國人民大學) with a master's degree in accounting in 2007 and graduated from China University of Petroleum — Beijing (中國石油大學(北京)) with a bachelor's degree in foreign-related enterprise financial management in 2000. Mr. Li has been accredited as a senior accountant by the CNPC Evaluation Committee of Senior Technical Positions* (中國石油天然氣集團公司高級技術職務評審委員會) in December 2013. Mr. Li has concurrently served as the director of training management center in CNPC South East Asia pipeline Company Limited (中國石油集團東南亞管道有限公司), and the manager of training department in South-East Asia Gas Pipeline Co., Ltd.* (東南亞天然氣管道有限公司) and South-East Asia Crude Oil Pipeline Co., Ltd.* (東南亞原油管道有限公司) since July 2014.

Mr. Li served as the financial executive in the Venezuela operation area of China National Logging Co., Ltd. (中油測井有限公司) from September 2001 to August 2003, the deputy manager of the financial department in China National Logging Co., Ltd. (中油測井有限公司) from November 2005 to May 2009 and the deputy director of the financial assets department in CNPC Great Wall Drilling Company (中國石油集團長城鑽探有限公司) from May 2009 to April 2010. Mr. Li also served as the deputy director of the financial department in CNPC South East Asia Pipeline Company Limited (中國石油集團東南亞管道有限公司) from April 2010 to May 2014, and the deputy director of the human resources department in CNPC South East Asia Pipeline Company Limited (中國石油集團東南亞管道有限公司) from May 2014 to July 2014.

Mr. Li Zhaoliang has resigned on 9 April 2019 before the expiration of his term of appointment.

*   *For identification purposes only*

Mr. Liang Zuping (梁祖平), aged 63, was appointed as the head of the auditing department of Chongqing Kangda on 28 July 2011, mainly responsible for the internal auditing and risk control matters of the Group. He joined the Group in July 1996 and has served various positions, including finance manager, deputy head of finance department, head and vice manager of finance department of construction management centre, manager of audit and supervision department, chief of tender committee, head of company supervision department and head of the auditing department. He has also served as a director of Chongqing Zhongya Technology Co., Ltd.* (重慶中雅科技有限公司), Tianjin Kangda Environmental Protection Water Co., Ltd* (天津康達環保水務有限公司), Harbin Kangda Environmental Protection Investment Co., Ltd.* (哈爾濱康達環保投資有限公司), Kangda Environmental Protection (Suzhou) Water Co., Ltd* (康達環保(宿州)水務有限公司), Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd.* (宿州康達環保污水處理有限公司) and Huadian Kangda Environmental Protection Water Co., Ltd* (樺甸康達環保水務有限公司) since October 2007, December 2010, February 2011, February 2011, March 2013 and August 2013, respectively. Mr. Liang completed the education programmes on senior industrial accounting in Chongqing Staff Accountant Training College* (重慶職工會計專科學校) located in Chongqing Municipal, in autumn 1981, spring 1983 and autumn 1983. He has also completed a two-year long-distance programme on economics and management in Beijing Economic Correspondence University* (北京經濟函授大學, currently known as Beijing Institute of Economic Management Correspondence College* (北京經濟管理函授學院)) located in Beijing, in January 1989. He passed the examination of college level accounting* (會計專業職務大專水平) in Sichuan Province in September 1988. He has over 20 years experience over accounting, financing and auditing affairs and was qualified as an accountant in the PRC granted by the Ministry of Finance of the PRC in November 1993.

Mr. Liang Zuping has resigned on 30 September 2018 due to his retirement before the expiration of his term of appointment.

Mr. Zhou Wei (周偉), aged 39, was appointed as the chief financial officer of the Group on 9 April 2019. Mr. Zhou Wei graduated from Nanjing Audit University* (南京審計學院) located in Nanjing and obtained a bachelor degree in auditing. Mr. Zhou Wei is currently a certified tax agent of the People's Republic of China. From 2002 to 2007, he worked in several domestic and international accounting firms. In August 2007, Mr. Zhou Wei joined China Water (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 855) and successively served as the chief financial officer of Huizhou Zhongshui Water Development Co., Ltd.* (惠州中水水務發展有限公司), a subsidiary of China Water), the vice general manager of the investment department of China Water, the general manager of Huizhou Dayawan Yiyuan Jingshui Co., Ltd.* (惠州大亞灣溢源淨水有限公司), a subsidiary of China Water), and the chief financial officers of Shenzhen Jinda Environment Holding Co. Ltd.* (深圳金達環境控股有限公司), a subsidiary of China Water) and Guangdong Xinsheng Environmental Protection Group Co., Ltd.* (廣東新晟環保集團有限公司), a subsidiary of China Water). Mr. Zhou Wei is experienced in financial management and investment and financing area.

* *For identification purposes only*

CORPORATE GOVERNANCE PRACTICES

Adapting and adhering to the recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of Shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

The Company has adopted the code provisions included in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The Board is of the view that during the year ended 31 December 2018, the Company has complied with the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code.

The Group further strengthened the control over budget, risk, performance and responsibilities, optimised management approaches and strategies, improved supporting mechanism and enhanced control effectiveness and operational efficiency of the Group.

The Group enhanced overall control over target responsibilities and budget control, which was promoted and implemented within the entities under the Group as well as management level, and implemented the main body responsibility system through organic combination of the trinity to fully stimulate team members' initiative.

The Group also took initiative to enhance efforts in fund management, financial risk control, project investment decisions, legal risk control, information disclosure and maintenance of investor relationship to strive for more effective and transparent management in accordance with the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as a code of conduct regarding the Directors' dealings in the Company's securities.

The Company has made specific enquiries to all of the Directors and all of the Directors have confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

THE BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The Board has delegated to the chief executive officer, of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

As at 31 December 2018 and up to the date of this annual report, the composition of the Board is set out below:

Executive Directors

Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Zhang Weizhong (Chief executive officer) (resigned on 4 April 2019)
Liu Zhiwei (Vice president) (resigned on 4 April 2019)
Gu Weiping (Vice president) (resigned on 4 April 2019)
Wang Litong (Vice president) (resigned on 4 April 2019)
Wang Tianci (Vice president) (resigned on 4 April 2019)
Li Zhong (Honorary Chairman) (appointed on 4 April 2019)
Liu Yu Jie (appointed on 4 April 2019)
Duan, Jerry Linnan (appointed on 4 April 2019)

Independent non-executive Directors

Tsui Yiu Wa Alec (resigned on 4 April 2019)
Chau Kam Wing (appointed on 4 April 2019)
Chang Qing
Peng Yongzhen

The Directors have no financial, business, family or other material/relevant relationships with each other.

During the year ended 31 December 2018, the Board at all time complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

A code provision of the Corporate Governance Code requires Directors to disclose to the issuer the number and nature of offices held in public companies or organisations and other significant commitments as well as the nature of such companies or organisations and the time involved in such offices, each Director has agreed to disclose their commitments to the Company in a timely manner.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and the Chief Executive Officer are carried out by different individuals and have been clearly defined in writing.

The Chairman is Mr. Zhao Juanxian (alias, Zhao Junxian) and the Chief Executive Officer is Mr. Zhang Weizhong. With effect from 9 April 2019, Mr. Zhang Weizhong has resigned as the Chief Executive Officer, and Mr. Duan, Jerry Linnan has been appointed as the Chief Executive Officer. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgement.

With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors (except for Mr. Wang Tianci) has entered into a service contract with us for an initial fixed term of three years commencing on 4 July 2014, the listing date of the Company (the "Listing Date") and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

Mr. Wang Tianci has entered into a service contract with the Company for an initial fixed term of three years commencing on 26 May 2017 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

Mr. Tsui Yiu Wa Alec has entered into a service contract with us for an initial fixed term of one year commencing on 1 November 2013 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

Mr. Peng Yongzhen has entered into a service contract with the Company for an initial fixed term of one year commencing on 26 February 2015 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

Mr. Chang Qing has entered into a service contract with the Company for an initial fixed term of one year commencing on 8 January 2016 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

In accordance with the articles of association of the Company (the "Articles of Association"), all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a causal vacancy shall submit himself/herself for re-election by Shareholders at the first general meeting after his/her appointment or in case as an addition to the Board, the new Director shall hold office only until the next following annual general meeting of the Company and then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

The Board is collectively responsible for performing the corporate governance duties and formalised the inclusion of the following corporate governance duties into the terms of reference of the Board:

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

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

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

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

e. to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report in the annual report of the Company.

The Board had reviewed and approved the corporate governance report contained in this annual report. The Board had also reviewed the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

The Board had adopted a board diversity policy aiming to set out the approach to achieve the diversity of members of the Board to enhance the effectiveness of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary. Individual Directors also participated in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials.

DIRECTORS' TRAINING

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2018 is as follows:

Name of Directors	Corporate Governance/ Updates on Laws, Rules & Regulations: Read Materials	Attend Seminars/ Briefing
Executive Directors		
Zhao Juanxian (alias, Zhao Junxian) (Chairman)	√	√
Zhang Weizhong (Chief Executive Officer)	√	√
Liu Zhiwei	√	√
Gu Weiping	√	√
Wang Litong	√	√
Wang Tianci	√	√
Independent Non-executive Directors		
Tsui Yiu Wa Alec	√	√
Peng Yongzhen	√	√
Chang Qing	√	√

BOARD MEETINGS

Notice of regular Board meetings will be dispatched to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management, including the Chief Executive Officer and the chief financial officer of the Company, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

DIRECTORS' ATTENDANCE RECORDS

During the year ended 31 December 2018, four Board meetings and an annual general meeting were held, including reviewing and approving the annual results for the year ended 31 December 2017 and the interim results for the six months ended 30 June 2018 and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings and the annual general meeting during the year ended 31 December 2018 are set out below:

Name of Directors	Attendance/ Number of Board Meetings	Attendance/ Number of Annual General Meeting
Executive Directors		
Zhao Juanxian (alias, Zhao Junxian) (Chairman)	4/4	1/1
Zhang Weizhong (Chief Executive Officer)	4/4	1/1
Liu Zhiwei	4/4	1/1
Gu Weiping	4/4	1/1
Wang Litong	4/4	1/1
Wang Tianci	4/4	1/1
Independent Non-executive Directors		
Tsui Yiu Wa Alec	4/4	1/1
Peng Yongzhen	4/4	1/1
Chang Qing	4/4	1/1

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to its Chief Executive Officer and the senior management.

BOARD COMMITTEES

The Board has established three committees, namely, the nomination committee, the remuneration committee and the audit committee.

NOMINATION COMMITTEE

The Company has established a nomination committee on 30 October 2013 (the "Nomination Committee") with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive. As at 31 December 2018, the Nomination Committee consisted of five members, comprising Mr. Zhao Juanxian (alias, Zhao Junxian), Mr. Zhang Weizhong, Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing, and Mr. Zhao Juanxian (alias, Zhao Junxian) was the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year ended 31 December 2018 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Zhao Juanxian (alias, Zhao Junxian) (Chairman)	1/1
Mr. Zhang Weizhong	1/1
Mr. Tsui Yiu Wa Alec	1/1
Mr. Peng Yongzhen	1/1
Mr. Chang Qing	1/1

The Nomination Committee reviewed the size, structure and composition of the Board to complement the Group's corporate strategy, nominated candidates to fill the casual vacancy arising from the resigning Director during the year ended 31 December 2018.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 30 October 2013 (the "Remuneration Committee") with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code and Rule 3.25 to the Listing Rules. The primary duties of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Directors and senior management. As at 31 December 2018, the Remuneration Committee consisted of three members, namely Mr. Chang Qing, Mr. Gu Weiping and Mr. Peng Yongzhen, and Mr. Chang Qing was the chairman of the Remuneration Committee.

During the year ended 31 December 2018, the Remuneration Committee reviewed the Directors' fees (including executive Directors, non-executive Director and independent non-executive Directors) in consideration of the increasing level of duties and responsibilities and market conditions; and approval of the remuneration incentive structure of the Group as a whole taking consideration of factors such as salaries paid by comparable companies, time commitment and their responsibilities.

The Remuneration Committee held one meeting during the year ended 31 December 2018 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Chang Qing (Chairman)	1/1
Mr. Gu Weiping	1/1
Mr. Peng Yongzhen	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in Note 8 to the Consolidated Financial Statements.

The biographies of the senior management are disclosed in the section headed "***Directors and Senior Management***" in this annual report. Remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of individuals
Nil to HK$1,000,000	1
HK$1,500,000 to HK$2,000,000	1

AUDIT COMMITTEE

The Company has established the Audit Committee pursuant to a resolution of the Directors passed on 30 October 2013 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code. The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. As at 31 December 2018, the Audit Committee consisted of three independent non-executive Directors, being Mr. Tsui Yiu Wa Alec, Mr. Peng Yongzhen and Mr. Chang Qing, and Mr. Tsui Yiu Wa Alec was the chairman of the Audit Committee.

The Audit Committee has reviewed the annual results and annual report of the Group for the year ended 31 December 2018. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

During the year ended 31 December 2018, the Audit Committee discussed with the management of the Company about the internal controls and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control system. The Audit Committee also met with the external auditor three times to review the annual report of the Company for the year ended 31 December 2017 and the interim report of the Company for the six months ended 30 June 2018 and discuss about the annual audit planning of the Company for the year ended 31 December 2018.

The Audit Committee held three meetings during the year ended 31 December 2018 and the attendance records are set out below:

Name of Directors	Attendance/ Number of Meetings
Mr. Tsui Yiu Wa Alec (Chairman)	3/3
Mr. Peng Yongzhen	3/3
Mr. Chang Qing	3/3

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2018. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements, which are put to the Board for approval.

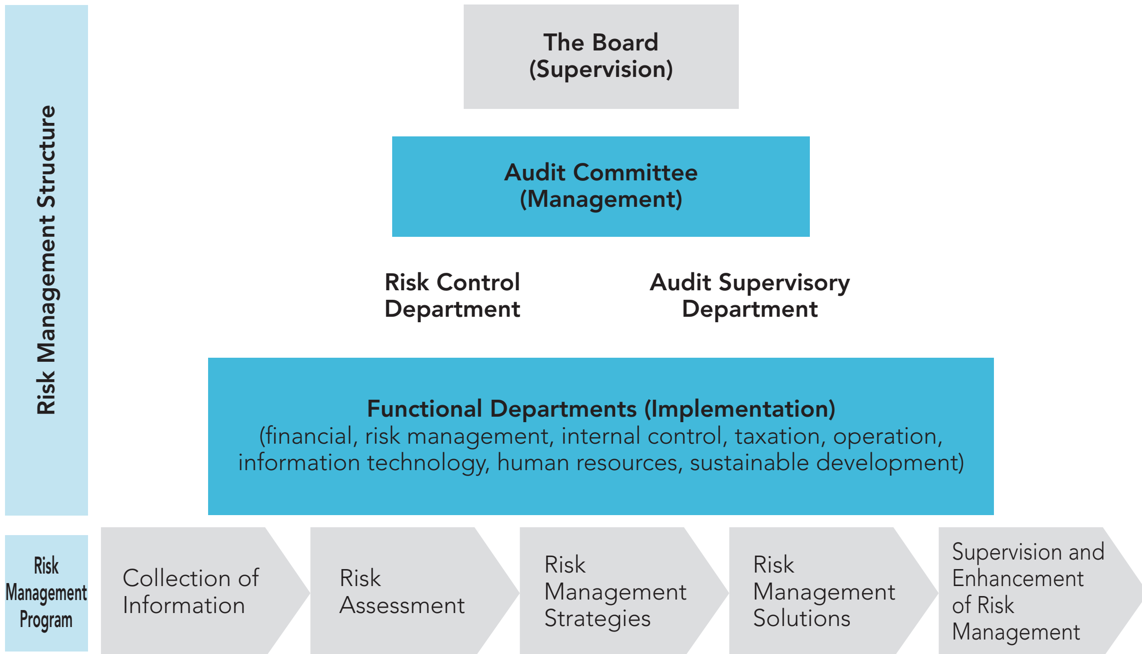
RISK MANAGEMENT AND INTERNAL CONTROL

The Board is solely responsible for the risk management and internal control system to protect the interests of the Company and the Shareholders as a whole. To achieve its aim, the Board monitors and approves the strategies and policies of the Group's risk management and internal control systems. The purpose of the relevant strategies and policies is to evaluate and determine the nature and extent of risks to make it suitable for the Group's strategic objectives and risk endurance. The main target is to provide reasonable assurance against material misstatement or loss, rather than eliminate the risk of failure to achieve business objectives. To this end, management continues to allocate resources for an internal control and risk management system compatible with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure in the operating system of the Group and in achieving business objectives by the Group.

The Board, through the Audit Committee, has continuously monitored and annually reviewed the effectiveness of risk management and internal control system of the Group and its subsidiaries, and is of the view that the existing risk management and internal control system is sufficient and effective. The review covered all material aspects with regard to control, including financial control, operational control and compliance control. The internal audit reports submitted to the Audit Committee by the Group also covered aspects of risk management and internal control. The Board is not aware of any significant areas of concern which may affect the Shareholders, and believes that the Group has fully complied with the code provisions on internal controls, including compliance with legal and regulatory requirements, as set forth in the Corporate Governance Code. The Board, through the appraisal performed by the Audit Committee, reviewed the adequacy of resources, staff qualifications and experience, training programs received by the staff and budget of the Group's accounting, internal auditing and financial reporting function at the Board meeting. In light of the Group's nature of business and the recommendations on the Board's role in risk management, the Group has developed risk management system and policies, and established a risk control department, which is responsible for the Group's risk management, to communicate and assess the Group's risk profile and material risks, and track the progress of mitigation plans and initiatives of material risks and report on detailed examinations of specific risks as required.

RISK MANAGEMENT ORGANISATION SYSTEM

The Group has established a comprehensive organization structure to manage the risks encountered by the Group. The risk management structure comprises two key factors: risk management structure and risk management program.



1. RISK MANAGEMENT STRUCTURE

Organisation	Responsibilities
REGULATORY ORGANISATION	**The Board is responsible for the effectiveness of the overall risk management** ▶ determine the overall objective, risk appetites and risk tolerance for corporate risk management, and approve risk management strategies, major risk mitigation solutions and risk management measures; ▶ understand and manage each major risks faced by the enterprise and its existing management situations, and make effective risks control decisions; approve the decision-making standards or mechanisms regarding major decisions, major risks, major events and major business processes; ▶ approve risk management report related to major decisions; and ▶ approve the annual comprehensive risk management report.
RISK MANAGEMENT ORGANISATION	**The Audit Committee, the highest risk management organisation in the Company, is accountable to the Board** ▶ review the establishment and planning of the comprehensive risk management system; ▶ review the proposal on the structure of the risk management organisations and their responsibilities; ▶ review the annual comprehensive risk management report and submit to the Board; ▶ review risk management strategies, major risk management solutions and risk management measures; and ▶ review the annual risk management work plan.
LEADING RISK MANAGEMENT ORGANISATION	**Risk control department, the leading risk management organisation** ▶ responsible for the establishment and amendment of the Company's risk management policies and mechanisms; ▶ formulate annual risk management work plan and submit to the Board and the Audit Committee for their review; ▶ regularly collect first-hand information regarding risk management, carry out risk assessment and discuss major risks faced by the Company; and ▶ assess the soundness, reasonability and the effectiveness in implementation of the risk management system, and review the annual comprehensive risk management report, risk management proposals and day-to-day risk management solutions.
RISK IMPLEMENTATION ORGANISATION	**Each functional department of the Company shall be under the coordination and supervision by the risk control department** ▶ implement the basic procedures in risk management; ▶ research and propose decision-making standards or mechanisms regarding major decisions, major risks, major events and major business processes of the functional department; ▶ research and propose risk assessment report of the functional department; ▶ properly carry out risk management work of the functional department; and ▶ establish comprehensive risk management procedures for the functional department.
RISK SUPPORTING ORGANISATION	**Audit supervisory department, responsible for making the internal audit arrangement based on the result of risk assessment** ▶ assist the Group in carrying out risk management work, and formulate internal auditing plan in accordance with the result of risk assessment; ▶ test the effectiveness of risk management through implementing accounting methods like walk through test and analytical review on its audit; and ▶ submit auditing results to the risk control department immediately after the internal audit.

2. RISK MANAGEMENT PROGRAM

The Group has established a comprehensive risk management program which is led by the risk control department and implemented with the assistance of the internal audit department. The risk management program is as follows:

(1) to collect first-hand information for risk management;

(2) to analyse and assess risks;

(3) to propose risk management strategies and formulate risk management solutions; and

(4) to supervise the implementation of risk management works performed by each business units and verify the overall appraisal.

Key risk management program of the Group

Risk Management Program	Collection of Information	Risk Assessment	Risk Management Strategies	Risk Management Solutions	Supervision and Enhancement of Risk Management
Designed Functions	Each department collects first-hand information for risk management	Organise meetings to analyse and assess risks	Arrange discussion between the management and each risk unit and propose risk strategies	Arrange discussion between the management and each risk unit and propose risk management solutions	Supervise the implementation of risk management works and verify the overall appraisal

SUPERVISION AND ENHANCEMENT OF RISK MANAGEMENT

The Group has set up basic procedures that cover the whole process of risk management, connecting the channels of communication of risk management information along the reporting lines and among various departments and business units to ensure timely, accurate and complete sharing of information and this has laid the foundation for the supervision and enhancement of risk management.

The senior management of the Group, focusing on material risks, material matters and material decisions, important management matters and the business flow, supervises the work relating to the first-hand information collection for risk management, risk assessment, risk management strategies, critical control activities and the implementation of risk management solutions. The risk control department carries out an annual review and examination on the implementation of the works on risk management by different departments and business units and its effectiveness for the year, assesses risk management strategies and evaluates inter-departmental risk management solutions and business units' risk management solutions, proposes suggestions for adjustments and recommendations for improvements and issues evaluation and recommendation reports which will be sent to the relevant senior management in a timely manner.

MATERIAL RISKS THE GROUP MAY FACE

In 2018, during the course of business planning, we identified the material risks that the Group may face which include macro-economic risks, risks of industry policies, risks of the PPP business model, risks of customers' credibility and risks in relation to competitors.

The potential risks of macro-economics arise from the effects of macro-economy's volatility and the pressure of inflation. The Group's corresponding measures on such risks include reviewing the management strategies and mechanism for macro-economic risks; reviewing the relevant mechanism on the collection of information about the changes in the external macro-economic environment; clearly defining the macro-economic risk analysis session; and analysing, reviewing, adjusting and improving the strategies for managing macro-economic risks in future.

The potential risks of industry policies arise from the change of relevant national laws and regulations in relation to the industries the Company mainly engaged in or proposed to expand into; introduction or changes in national environmental protection policies; and changes in policies relating to business partnership models. The Group's corresponding measures on such risks include reviewing management strategies and mechanism for risks of adjustment and changes in relevant national laws and regulations; collecting timely information on introduction or changes in national environmental protection policies; and enhancing the responsive mechanism for new business partnership models.

The potential risks of the PPP business model arise from the uncertainties within project revenues from the PPP business model; the key process of the PPP business model is yet to be clarified; and the industry is still exploring the PPP business model. The Group's corresponding measures on such risks include reviewing management strategies and mechanism for the PPP business model; collecting information from sample cases of PPP business model and accumulating experience in implementing the model; identify clearly the risk analyzing sessions of each aspect of the PPP business model; and continuing to analyse new issues encountered in the PPP business model to improve the corresponding risk handling measures.

The potential risks of customers' credits arise from the deteriorating debt crisis of local governments. The Group's corresponding measures on such risks include reviewing management strategies and mechanism for evaluating customers' credits; enhancing our capability to collect and analyse customers' information to provide information on the evaluation of customers' status; reviewing our capability to communicate and negotiate with customers; and strengthening management in collecting water bills.

The potential risks in relation to competitors may arise due to the new market strategies or tactics (e.g. price reduction) adopted by competitors which cause the Company to lag behind in competition, or due to deterioration in the competitive environment as a result of new market entrants, which in turn results in a more adverse position for the Company in the market competition, decrease in profitability and difficulties in obtaining orders. The Group's measures to mitigate such risks include putting more efforts into market analysis, collecting information of competitors from various channels, deepening the analysis on the sources of competitive advantages gained by competitors and paying close attention to the development progress on the core competencies and core business development of competitors, such that the decision makers can integrate resources and formulate corresponding strategies, establish a comprehensive market competition data base, as well as constantly monitoring the development of the competitors and the ever-changing market situation to provide strong support for project planning and management's decisions.

MANAGEMENT OF INSIDE INFORMATION

The Group has formulated a set of program of continuing obligations on information management and disclosure to formally regulate the monitoring of inside information that arises during the course of its current business development and has established the practice of delivering such information to the Shareholders, the media and analysts. When handling the relevant matters, the Group will comply with "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission and the related provisions issued by regulatory organisations and the Group has clearly stated that the unauthorised use of confidential or inside information is prohibited. The Group has set up a system of answering enquiries from external parties about the Group's affairs, and will appoint and authorise the senior executives of the Group to act as the Company's spokesperson in response to enquiries on a particular area.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the Consolidated Financial Statements is set out in the "***Independent Auditor's Report***" on pages 62 to 66.

During the year ended 31 December 2018, the remuneration paid/payable to the Company's independent auditor, Ernst & Young, is set out below:

	RMB
Annual audit services	3,000,000
Non-audit services	825,000
Total fees	3,825,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for face-to-face communication between the Board and the Shareholders dialogue. The Chairman as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at general meetings.

To promote effective communication, the Company maintains on its website up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information, which are posted and are available for public access.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company has not made any significant changes to its constitutional documents during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting.

Shareholders who intend to put forward their enquiries to the Board could send their enquiries to the Company's principal place of business in Hong Kong or the headquarters in the PRC or by email to kangda@kangdaep.com. Shareholders can contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

CONVENING OF EXTRAORDINARY GENERAL MEETINGS AND PUTTING FORWARD PROPOSALS

Pursuant to the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

COMPANY SECRETARY

Mr. Cheng Wing Hong is the company secretary of the Company. In compliance with Rule 3.29 of the Listing Rules, Mr. Cheng has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

COMPANY INFORMATION AND LISTING

The Company was incorporated in the Cayman Islands on 22 August 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands (the "Companies Law"). The shares of the Company were listed on the Hong Kong Stock Exchange on 4 July 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in constructions and operations in urban water treatment businesses, water environment comprehensive remediation and rural water improvement in the PRC.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 67 and page 68 of this annual report.

DIVIDEND POLICY

The declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the articles of association of the Company. Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company.

FINAL DIVIDENDS

The Board did not recommend payment of the final dividend for the year ended 31 December 2018 (year ended 31 December 2017: RMB2.0 cents per share).

BUSINESS REVIEW

A review of the Group's business for the year ended 31 December 2018 are presented in "Chairman's Statement", "Business Review" and "Financial Analysis". The "Financial Analysis" also includes an analysis of the Group's performance during the financial year in terms of key financial performance indicators. Likely future developments in the Group's business are disclosed in "Chairman's Statement" and "Development Strategies and Future Development" section of "Management Discussion and Analysis".

Except for the events disclosed in "Events After the Reporting Period", there is no important event affecting the Group since the end of the financial year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has implemented internal recycling program on a continuous basis for consumable goods such as toner cartridges and paper to minimise the operation impact on the environment and natural resources. Recycled papers have also been used as key printing materials for internal use.

The Group has also implemented energy saving practices in offices and the Group's wastewater plants to enhance the efficiency of electricity consumption.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

PRINCIPAL RISKS AND UNCERTAINTIES

The political, economic and social conditions in China are experiencing changes and reforms, which may adversely affect our business, growth strategies, operating results and financial condition.

Demand for the Group's services and business, financial condition, results of operations and prospects may be adversely affected by the following factors:

- political instability or changes in social conditions in China;
- changes in laws, regulations and administrative directives;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond control.

RELATIONSHIPS WITH KEY STAKEHOLDERS

EMPLOYEE

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

CUSTOMERS AND SUPPLIERS

The Group's customers are generally municipal, district or county level governments or their designees in China. We typically enter into agreements with the Group's customers to provide wastewater treatment and other services on a project-by-project basis.

The Group's business is built on a customer-oriented culture, and are focused on establishing relationships with district or county level governments or their designees in China. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards of quality in the service to its customers.

SHAREHOLDERS

One of the corporate goals of the Group is to enhance corporate value to Shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding Shareholders.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities, which are extracted from the annual audited reports, are set out on page 186 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's five largest suppliers accounted for 19.8% of the Group's total purchases and purchase from the Group's largest supplier included therein amounted to 5.2% of the total purchases for the year.

For the year ended 31 December 2018, the Group's sales to its five largest customers accounted for 32.7% of the Group's total sales and sales to the largest customer included therein amounted to 8.5% of the total sales for the year.

None of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 30 to the finance statements. 28,980,000 ordinary shares of the Company were cancelled during the year on shares repurchase of the Company.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 31 and in the consolidated statement of changes in equity on page 71 and page 72 of this annual report respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB1,708.8 million.

BANK LOANS AND CORPORATE BOND

Particulars of interest-bearing bank and other borrowings and corporate bonds of the Group as at 31 December 2018 are set out in note 28 and note 29 to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this annual report were:

Executive Directors:

Zhao Juanxian (alias, Zhao Junxian) (Chairman)
Zhang Weizhong (Chief executive officer) (resigned on 4 April 2019)
Liu Zhiwei (Vice president) (resigned on 4 April 2019)
Gu Weiping (Vice president) (resigned on 4 April 2019)
Wang Litong (Vice president) (resigned on 4 April 2019)
Wang Tianci (Vice president) (resigned on 4 April 2019)
Li Zhong (Honorary Chairman) (appointed on 4 April 2019)
Liu Yu Jie (appointed on 4 April 2019)
Duan, Jerry Linnan (appointed on 4 April 2019)

Independent non-executive Directors:

Tsui Yiu Wa Alec (resigned on 4 April 2019)
Chau Kam Wing (appointed on 4 April 2019)
Chang Qing
Peng Yongzhen

In accordance with the Articles of Association, Chang Qing and Peng Yongzhen will retire, and being eligible, have offered themselves for re-election as Directors at the Annual General Meeting of the Company.

Details of the Directors to be re-elected at the Annual General Meeting of the Company are set out in the circular to the Shareholders.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 22 to 29 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with the Listing Rules.

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors (except for Mr. Wang Tianci) has entered into a service contract with the Company for an initial fixed term of three years commencing on the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

Mr. Wang Tianci has entered into a service contract with the Company for an initial fixed term of three years commencing on 26 May 2017 and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

The non-executive Director has signed an appointment letter for a fixed term of one year commencing on the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by the non-executive Director or by immediate notice in writing served by the Company.

Mr. Tsui Yiu Wa Alec has entered into a service contract with the Company for an initial fixed term of one year commencing on 1 November 2013 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

Mr. Peng Yongzhen has entered into a service contract with the Company for an initial fixed term of one year commencing on 26 February 2015 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

Mr. Chang Qing has entered into a service contract with the Company for an initial fixed term of one year commencing on 8 January 2016 and will continue thereafter until terminated by not less than one month's notice in writing served by either party to the other.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN TRANSACTIONS OF SIGNIFICANCE, ARRANGEMENTS OR CONTRACTS

No Director or any entity connected with a Director had a material interest, either directly or indirectly, in any transactions of significance, arrangements or contracts to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the "Share Option Scheme") on 14 June 2014 (the "Adoption Date"). The following is a summary of principal terms of the Share Option Scheme:

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Who may join in the Share Option Scheme

The Board may, at its absolute discretion, grant options ("Option(s)") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(b) a Director or proposed Director (including an independent non-executive Director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the "Eligible Persons").

Maximum number of Shares

The maximum number of Shares immediately following the completion of the Global Offering (as defined in the Prospectus) in respect of which Options may be granted under the Share Option Scheme was 200,000,000, representing 10% of the issued share capital of the Company.

Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time.

Where any further grant of Options to such Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting.

Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Hong Kong Stock Exchange or an integral multiple thereof).

Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before Option can be exercised.

AMOUNT PAYABLE ON ACCEPTANCE OF THE OPTION AND THE PAYMENT PERIOD

To accept the grant of an Option, HK$1 as consideration for the grant of an Option must be received by the Company from the grantee within 30 days from the date on which the board resolution approves the grant of Options.

Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) The nominal value of a Share;

(b) The closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheet on the offer date; and

(c) The average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years.

On 19 December 2014, the Company has granted a total of 84,500,000 Options to subscribe 84,500,000 Shares in conformity with the Share Option Scheme to certain Directors and employees.

During the year ended 31 December 2018, 28,160,000 Options were lapsed and no Option was granted, exercised or cancelled under the Share Option Scheme. The share options granted shall vest and become exercisable within one year from the relevant date of vesting in three tranches in the proportion of 30%, 30% and 40% at the end of the 12th, 24th and 36th month after the date of grant, unless otherwise determined by the Company at its discretion in exceptional circumstances.

Set out below are the details of the outstanding options granted under the Share Option Scheme:

Name of grantee	Date of grant	Closing Price as at the date of grant of options (HK$)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2018	Granted during the Period	Exercised during the Period	Cancelled/ lapsed during the Period	Outstanding as at 31 December 2018	Exercise period (Note 1)
Director									
Zhang Weizhong	19/12/2014	3.340	3.386	–	–	–	–	–	A
(also the chief				–	–	–	–	–	B
executive officer)				2,600,000	–	–	(2,600,000)	–	C
Sub-total				2,600,000	–	–	(2,600,000)	–	
Liu Zhiwei	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,200,000	–	–	(2,200,000)	–	C
Sub-total				2,200,000	–	–	(2,200,000)	–	
Gu Weiping	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,000,000	–	–	(2,000,000)	–	C
Sub-total				2,000,000	–	–	(2,000,000)	–	
Wang Litong	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				2,000,000	–	–	(2,000,000)	–	C
Sub-total				2,000,000	–	–	(2,000,000)	–	
Wang Tianci	19/12/2014	3.340	3.386	–	–	–	–	–	A
				–	–	–	–	–	B
				1,000,000	–	–	(1,000,000)	–	C
Sub-total				1,000,000	–	–	(1,000,000)	–	
Other employees	19/12/2014	3.340	3.386	–	–	–	–	–	A
(in aggregate)				–	–	–	–	–	B
				18,360,000	–	–	(18,360,000)	–	C
Sub-total				18,360,000	–	–	(18,360,000)	–	
Total				28,160,000	–	–	(28,160,000)	–	

Note:

1. The respective exercise periods of the share options granted are as follows:

   A: 19 December 2015 to 18 December 2016

   B: 19 December 2016 to 18 December 2017

   C: 19 December 2017 to 18 December 2018

The Directors have established the values of the share options granted during the year, calculated using binomial model as at the date of grant of the share options.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required 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 interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Juanxian[(1)] (alias, Zhao Junxian)	Person acting in concert (long position)	1,146,728,004	56.42%

Note:

(1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, being the son of Mr. Zhao Juanxian, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company
Mr. Zhao Sizhen(1)	Interest in controlled corporation (long position)	1,143,828,004	56.28%
	Beneficial owner (long position)	2,900,000	0.14%
Kangda Holdings Company Limited(2)	Beneficial owner (long position)	1,143,828,004	56.28%
Baring Private Equity Asia V Holding (5) Limited(3)	Beneficial owner (long position)	344,129,996	16.93%
The Baring Asia Private Equity Fund V, L.P.(3)	Interest in controlled corporation (long position)	344,129,996	16.93%
Baring Private Equity Asia GP V, L.P.(3)	Interest in controlled corporation (long position)	344,129,996	16.93%
Baring Private Equity Asia GP V Limited(3)	Interest in controlled corporation (long position)	344,129,996	16.93%
Jean Eric Salata(3)	Interest in controlled corporation (long position)	344,129,996	16.93%

Notes:

(1) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in the Company.

(2) Kangda Holdings Company Limited is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the Shares held by Kangda Holdings Company Limited.

(3) Baring Private Equity Asia V Holding (5) Limited is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P. Baring Private Equity Asia GP V, L.P., is the general partner of The Baring Asia Private Equity Fund V, L.P. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Jean Eric Salata is deemed to be interested in the relevant Shares held by Baring private Equity Asia V Holding (5) Limited. Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

Save as disclosed above, and as at 31 December 2018, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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

Pursuant to the general mandate granted by the Shareholders to the Directors at the annual general meeting held on 25 May 2017 and 14 June 2018, the Company repurchased a total of 28,980,000 ordinary shares of the Company on the Hong Kong Stock Exchange during the year ended 31 December 2018 at an aggregate consideration of approximately HK$37,226,370 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	**Number of ordinary shares repurchased**	**Price per Share (HK$)**		**Aggregate Consideration paid (HK$)**
		Highest	Lowest	
February 2018	5,260,000	1.62	1.46	8,299,550
June 2018	23,720,000	1.28	1.17	28,926,820

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a *pro rata* basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

Each of Mr. Zhao Sizhen, Mr. Zhao Juanxian (alias, Zhao Junxian) and Kangda Holdings Company Limited (collectively as the "Controlling Shareholders") has executed a deed of non-competition in favour of the Company, pursuant to which they have jointly, severally and irrevocably undertaken with the Company (for itself and for benefit of its subsidiaries) not to, whether directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any subsidiary of the Company).

The Controlling Shareholders have confirmed in writing to the Company of their compliance with the deed of non-competition for disclosure in this report during the year ended 31 December 2018.

The independent non-executive Directors have reviewed the deed of non-competition whether the Controlling Shareholders have abided by the non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the Controlling Shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2018.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, as at 31 December 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

CONNECTED TRANSACTION

On 25 May 2017, Chongqing Taiko & Kangda Environmental Protection Technology Co., Ltd.*（重慶大晃康達環保技術有限公司）("Chongqing Taiko") and Chongqing Kangda entered into an equipment purchase framework agreement, pursuant to which, Chongqing Kangda agreed to purchase and Chongqing Taiko agreed to sell various types of wastewater treatment equipment from time to time for a term of two years ending 31 December 2017 and 2018 with annual caps of RMB20 million and RMB35 million, respectively. As Chongqing Taiko was held indirectly as to 40% by Chongqing Kangte, which was held by Mr. Zhao Juanxian, who served as an executive Director, chairman of the Board and was a controlling Shareholder of the Company, and Mr. Gu Weiping (on behalf of Mr. Zhao Juanxian), who served as an executive Director, as to 98% and 2%, respectively, Chongqing Taiko is deemed as a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions between the Group and Chongqing Taiko constitute continuing connected transactions of the Company under the Listing Rules, and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As set out in note 39(a) of the consolidated financial statements, certain bank borrowings of the Group were secured by Mr. Zhao Juanxian, which constitute continuing connected transactions under Chapter 14A of the Listing Rules. However, pursuant to Rule 14A.90 of the Listing Rules, as the guarantees provided by Mr. Zhao Juanxian were conducted on normal commercial terms and not secured by the assets of the Group, the guarantees provided by Mr. Zhao Juanxian set out in note 39(a) of the consolidated financial statements are fully exempted from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.09 of the Listing Rules, as Huizhou Kangda Yingzhihuang Water Co., Ltd.*（惠州康達英之皇水務有限公司）, Five Guohuan subsidiaries (collectively, Dong'e County Guohuan Sewage Treatment Co., Ltd.（東阿縣國環污水處理有限公司）, Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd.（聊城嘉明國環污水處理有限公司）, Linqing City Guohuan Sewage Treatment Co., Ltd.（臨清市國環污水處理有限公司）, Jining Guohuan Sewage Treatment Co., Ltd.（濟寧市國環污水處理有限公司）, and Shen County Guohuan Sewage Treatment Co., Ltd.（莘縣國環污水處理有限公司） in aggregate), Pingdingshan City Bay Water Treatment Co., Ltd.*（平頂山市海灣水務有限公司）, Qitaihe Wanxinglong Water Co., Ltd.*（七台河萬興隆水務有限責任公司）, Qishan County Dayuan Sewage Treatment Co., Ltd.*（岐山縣大源污水處理有限責任公司）, Zhengzhou Xinzhongzhou Water Co., Ltd.*（鄭州新中洲水務有限公司） and Xinzheng Xinkang Water Co., Ltd.*（新鄭新康水務有限公司) (in aggregate), Weihai Kangda Ecological Environment Treatment Co., Ltd.*（威海康達生態環境綜合治理有限公司）, Jiaoling Kangda Environmental Governance Co., Ltd.（蕉嶺康達環境治理有限公司）, Hebi Kangda and Jilin Kangda are insignificant subsidiaries of the Group, the related party transactions between the Group and their respective non-controlling shareholders set out in note 39(a) of the consolidated financial statements do not constitute connected transactions or continuing connected transactions under the Listing Rules.

* *For identification purposes only*

Save as disclosed above, the other transactions set in note 39 of the consolidated financial statements either do not constitute connected transactions or continuing connected transactions of the Company or are exempted from reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDITORS

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The auditors of the Company have reported to the Directors that nothing has come to their attention that causes the auditors to believe that, during the year ended 31 December 2018:

(i) the above continuing connected transactions have not been approved by the Board;

(ii) the above continuing connected transactions that involve provision of goods or services by the Group, were not, in all material respects, in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and

(iv) the respective cap amounts set out for the relevant agreement referred to above have been exceeded.

NON-COMPLIANCE

As disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus, Huadian Kangda Environmental Protection Water Co., Ltd.* (樺甸康達環保水務有限公司, "Huadian Kangda") operated without a valid sewage discharge permit during the three years ended 31 December 2013 and up to the date of 13 June 2014. On 13 May 2015, Huadian Kangda obtained a temporary sewage discharge permit from Huadian Environmental Protection Agency* (樺甸市環境保護局) for a period from 13 May 2015 to 12 May 2016. On 7 June 2016, Huadian Kangda obtained a temporary sewage discharge permit from the Environmental Protection Bureau of Jilin Province (吉林省環境保護廳) for a period from 7 June 2016 to 6 June 2017. Upon the expiration of such temporary sewage discharge permit, the Environmental Protection Bureau of Jilin Province (吉林省環境保護廳) refused to issue the sewage discharge permit or renew the temporary sewage discharge permit when Huadian Kangda made the application to such bureau, according to which, the application processing for the sewage discharge permit or temporary sewage discharge permit has been suspended and further notice would be provided to Huadian Kangda once the application processing for the sewage discharge permit or temporary sewage discharge permit is resumed. As to the non-compliance of Jilin Sewage Treatment Company* (吉林市污水處理公司, "Jilin Kangda"), due to the same reason as stated above, the Environmental Protection Bureau of Jilin Province (吉林省環境保護廳) refused to issue the sewage discharge permit to Jilin Kangda since 2017 and will further notice Jilin Kangda when the application processing is resumed.

As disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus, Jixi Xian Chengjian Sewage Treatment Co., Ltd.* (績溪縣城建汙水處理有限公司, "Jixi Chengjian Sewage") operated without passing the environmental acceptance tests and obtaining a valid sewage discharge permit during the three years ended 31 December 2013 and up to the date of 13 June 2014. Jixi Chengjian Sewage has completed its environmental acceptance tests with the assistance of engaged expert while upgrading its project scale in December 2017 in accordance with the latest applicable laws and regulations. When Jixi Chengjian Sewage consulted the Environmental Protection Bureau in Xuancheng for the issue of sewage discharge permit in March 2018, it was informed by the Environmental Protection Bureau in Xuancheng that the application processing for the sewage discharge permit has been suspended pending further notice from the Environmental Protection Bureau of Anhui Province.

As disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus, Anhui Chengjian Huashan Sewage Treatment Co., Ltd.* (安徽省城建花山污水處理有限公司, "Huashan Sewage") and Ningguo Chengjian Sewage Treatment Co., Ltd.* (寧國市城建污水處理有限公司, "Ningguo Sewage") operated without passing the environmental acceptance tests and a valid sewage discharge permit during the three years ended 31 December 2013 and up to the date of 13 June 2014. On 25 July 2018, our Group disposed 100% equity interests in each of Huashan Sewage and Ningguo Sewage to an independent third party, after which, each of Huashan Sewage and Ningguo Sewage cased to be a subsidiary of our Group. Please refer to the announcement of the Company dated 25 July 2018 for further details.

Save as disclosed above, as at 31 December 2018 and up to the date of this annual report, the historical non-compliance instances disclosed in the paragraph headed "Non-compliance" in the business section of the Prospectus were still under the progress of rectification. For further details of such historical non-compliance instances, please refer to the paragraph headed "Non-compliance" in the business section of the Prospectus. The Company will provide further information in its subsequence interim and annual report if there is any further update on the status of such non-compliance instances.

* *For identification purpose only*

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 43 to the consolidated financial statements in this report.

AUDIT COMMITTEE

The Audit Committee had reviewed together with the management and independent auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2018.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code contained in the Listing Rules. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to strengthening the corporate governance practices of the Group. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 30 to 45 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Hong Kong Stock Exchange and permitted under the Listing Rules, are held by the public at all times as at the date of this annual report.

AUDITOR

Ernst & Young has acted as auditor of the Company for the year ended 31 December 2018.

Ernst & Young shall retire in the Annual General Meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the Annual General Meeting.

On behalf of the Board
Zhao Juanxian (alias, Zhao Junxian)
Chairman

Hong Kong, 28 March 2019

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Kangda International Environmental Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 185, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

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

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade receivables	
Trade receivables were significant to the consolidated financial statements and the majority of the receivables were generated from service concession arrangements, engineering procurement construction ("EPC") contracts, and build-transfer contracts. Expected credit losses ("ECLs") allowances for trade receivables is made based on the assessment of the recoverability of receivables due from customers. The Group is required to regularly assess the recoverability of its trade receivables. This involves significant judgement and estimation as the ECLs allowances must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money. Relevant disclosures are included in note 2.4 summary of significant accounting policies — "impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)", note 2.5 significant accounting judgements and estimates — estimation uncertainty — "Provision for expected credit losses on trade receivables, financial receivables, and contract assets" and note 20 "trade and bills receivables" to the consolidated financial statements.	We evaluated the Group's processes and controls relating to the monitoring of trade receivables. Our procedures to assess the recoverability of trade receivables included, among others, obtaining confirmations of trade receivables, examining evidence of collection of trade receivables after the year end, testing correctness of the ageing analysis by customers, examining the Group's assessment of the customers' financial circumstances and ability to repay the debt, comparing the Group's provisioning rates against historical collection data, considering the customers' historical payment habits along with other macroeconomic information and other reasonable and supportable forward-looking information. We also assessed whether the time value of money was properly considered in the ECLs allowances model and checked the mathematical accuracy of the calculations. In addition, we evaluated the adequacy of the disclosures regarding the ECLs allowances of trade receivables.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Accounting for service concession arrangements	
The Group engages in certain service concession arrangements in which the Group carries out the construction work of waste water treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), water distribution plants (the "WDPs"), sludge treatment plants (the "STPs") and other municipal infrastructure for certain governmental authorities or their designees (the "Grantors") and receives in return the rights to operate the WTPs, RWTPs, WDPs, STPs and other municipal infrastructure concerned in accordance with the pre-established conditions set by the Grantors. The measurement of revenue and cost for service concession arrangements involved significant management judgements and estimates including determination of applicable accounting model, estimation of the future guaranteed receipts, prevailing market rate of construction gross margins, and discount rates as used in the valuation process. Relevant disclosures are included in note 2.4 summary of significant accounting policies — "service concession arrangements", note 2.5 significant accounting judgements and estimates — judgements — "accounting for service concession arrangements", note 4 "revenue" and note 18 "financial receivables" to the consolidated financial statements.	We reviewed the contract terms of the service concession arrangements and assessed the appropriateness of accounting model adopted and the future guaranteed receipts. We evaluated the competency and objectivity of the external appraiser engaged by the management to assist the determination of the gross margin for construction service and discount rates. We also evaluated the appropriateness of basis and assumptions in the valuation and performed a comparison of the inputs used in the valuation against external market data. In addition, we involved our internal valuation specialists to assist us in evaluating the gross margin for construction service and the discount rates. We reviewed the methods and assumptions adopted by management in determining the total budgeted costs. We checked the relevant supporting documents for actual costs on a sample basis. We also performed cut-off testing procedures to check whether material costs had been recognised in the appropriate accounting periods. We also assessed the adequacy of the relevant disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 Yim Chi Hung, Henry.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	4	**3,021,327**	2,523,940
Cost of sales		**(1,928,142)**	(1,570,619)
Gross profit		**1,093,185**	953,321
Other income and gains	5	**218,520**	190,667
Selling and distribution expenses		**(14,229)**	(11,950)
Administrative expenses		**(284,508)**	(278,898)
Other expenses		**(50,809)**	(7,786)
Finance costs	7	**(498,570)**	(354,880)
Share of profits and losses of:			
Associates		**(5,595)**	43,730
Joint ventures		**(2,303)**	2,592
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**455,691**	536,796
Income tax expense	10	**(145,801)**	(109,187)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**309,890**	427,609
PROFIT FOR THE YEAR		**309,890**	427,609
Attributable to:			
Owners of the parent	11	**303,350**	414,448
Non-controlling interests		**6,540**	13,161
		309,890	427,609
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic for profit for the year (expressed in RMB per share)	11	**14.84 cents**	20.05 cents
Diluted for profit for the year		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale financial investments:			
Changes in fair value		**–**	117,000
Income tax effect		**–**	(17,550)
		–	99,450
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(132,000)**	–
Income tax effect		**19,800**	–
		(112,200)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**197,690**	527,059
Attributable to:			
Owners of the parent		**191,150**	513,898
Non-controlling interests		**6,540**	13,161
		197,690	527,059

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**143,167**	152,209
Investment properties		**10,524**	11,226
Investments in associates	13	**221,843**	228,908
Investments in joint ventures	14	**140,403**	128,572
Available-for-sale financial investments	15	**–**	621,000
Equity investments designated at fair value through other comprehensive income	15	**489,000**	–
Service concession intangible assets	16	**737,174**	914,503
Other intangible assets		**3,554**	3,737
Goodwill	17	**60,219**	60,219
Financial receivables	18	**6,430,669**	7,676,867
Deferred tax assets	19	**90,383**	81,652
Prepayments, other receivables and other assets	21	**427,855**	393,254
Contract assets	22	**2,281,930**	–
Other non-current financial assets	23	**793,030**	–
Total non-current assets		**11,829,751**	10,272,147
CURRENT ASSETS			
Inventories		**14,556**	11,659
Construction contracts	24	**–**	80,485
Contract assets	22	**209,474**	–
Financial receivables	18	**1,400,911**	1,410,155
Trade and bills receivables	20	**1,295,999**	1,146,070
Prepayments, other receivables and other assets	21	**618,563**	430,590
Pledged deposits	25	**179,727**	194,855
Cash and cash equivalents	25	**976,246**	1,689,633
Total current assets		**4,695,476**	4,963,447
CURRENT LIABILITIES			
Trade and bills payables	26	**1,628,869**	1,287,658
Other payables and accruals	27	**506,968**	514,524
Deferred income		**19,650**	25,450
Interest-bearing bank and other borrowings	28	**3,011,743**	2,805,827
Corporate bonds	29	**671,394**	1,100,000
Tax payable		**28,807**	40,397
Total current liabilities		**5,867,431**	5,773,856
NET CURRENT LIABILITIES		**(1,171,955)**	(810,409)
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,657,796**	9,461,738

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Trade payables	26	**9,396**	2,851
Interest-bearing bank and other borrowings	28	**4,084,177**	3,589,235
Corporate bonds	29	**1,469,105**	948,841
Deferred income		**10,333**	9,317
Deferred tax liabilities	19	**763,112**	704,633
Total non-current liabilities		**6,336,123**	5,254,877
Net assets		**4,321,673**	4,206,861
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**16,143**	16,392
Reserves	31	**4,098,510**	3,986,922
		4,114,653	4,003,314
Non-controlling interests		**207,020**	203,547
Total equity		**4,321,673**	4,206,861

Zhang Weizhong
Director

Liu Zhiwei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Special reserve RMB'000	Share option reserve RMB'000	Available-for-sale financial investment/ equity investments designated at fair value through other comprehensive income revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2017	16,444	1,758,407	383,563	–	49,280	14,395	1,324,896	3,546,985	146,182	3,693,167
Profit for the year	–	–	–	–	–	–	414,448	414,448	13,161	427,609
Other comprehensive income for the year:										
Changes in fair value of available-for-sale financial investments, net of tax	–	–	–	–	–	99,450	–	99,450	–	99,450
Total comprehensive income for the year	–	–	–	–	–	99,450	414,448	513,898	13,161	527,059
Final 2016 dividends declared	–	(33,080)	–	–	–	–	–	(33,080)	–	(33,080)
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	49,000	49,000
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(4,796)	(4,796)
Shares repurchased	(52)	(9,792)	–	–	–	–	–	(9,844)	–	(9,844)
Share of other changes in equity of an associate	–	–	38,674	–	–	–	–	38,674	–	38,674
Reclassification from an investment in an associate to available-for-sale financial investments	–	–	(46,039)	–	–	(14,395)	–	(60,434)	–	(60,434)
Equity-settled share option expense	–	–	–	–	7,115	–	–	7,115	–	7,115
Transfer to special reserve (c)	–	–	–	20,404	–	–	(20,404)	–	–	–
Utilisation of special reserve (c)	–	–	–	(20,404)	–	–	20,404	–	–	–
As at 31 December 2017	16,392	1,715,535*	376,198*	–*	56,395*	99,450*	1,739,344*	4,003,314	203,547	4,206,861
As at 1 January 2018 (Audited)	**16,392**	**1,715,535***	**376,198***	**–***	**56,395***	**99,450***	**1,739,344***	**4,003,314**	**203,547**	**4,206,861**
Effect of adoption of International Financial Reporting Standards 9 *Financial Instruments*	**–**	**–**	**–**	**–**	**–**	**–**	**(8,389)**	**(8,389)**	**–**	**(8,389)**
As at 1 January 2018 (Restated)	**16,392**	**1,715,535**	**376,198**	**–**	**56,395**	**99,450**	**1,730,955**	**3,994,925**	**203,547**	**4,198,472**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**303,350**	**303,350**	**6,540**	**309,890**
Other comprehensive income for the year:										
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**–**	**(112,200)**	**–**	**(112,200)**	**–**	**(112,200)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(112,200)**	**303,350**	**191,150**	**6,540**	**197,690**
Final 2017 dividends declared	**–**	**(41,122)**	**–**	**–**	**–**	**–**	**–**	**(41,122)**	**–**	**(41,122)**
Capital contribution from a non-controlling shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,189**	**4,189**
Movements in merger reserve of investments in associates	**–**	**–**	**158**	**–**	**–**	**–**	**–**	**158**	**–**	**158**
Acquisition of non-controlling interests	**–**	**–**	**543**	**–**	**–**	**–**	**–**	**543**	**(5,125)**	**(4,582)**
Disposal of subsidiaries (a)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,131)**	**(2,131)**
Shares repurchased (b)	**(249)**	**(30,752)**	**–**	**–**	**–**	**–**	**–**	**(31,001)**	**–**	**(31,001)**
Transfer to special reserve (c)	**–**	**–**	**–**	**24,835**	**–**	**–**	**(24,835)**	**–**	**–**	**–**
Utilisation of special reserve (c)	**–**	**–**	**–**	**(24,835)**	**–**	**–**	**24,835**	**–**	**–**	**–**
As at 31 December 2018	**16,143**	**1,643,661***	**376,899***	**–***	**56,395***	**(12,750)***	**2,034,305***	**4,114,653**	**207,020**	**4,321,673**

* These reserve accounts comprise the consolidated reserves of RMB4,098,510,000 (31 December 2017: RMB3,986,922,000) in the consolidated statement of financial position:

Notes:

(a) On 18 August 2018, Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd., an indirectly wholly-owned subsidiary of the Company, disposed of all of its 99% interest in Yanggu County Guohuan Sewage Treatment Co., Ltd. ("Yanggu Guohuan"), 99% interest in Liaocheng Municipal Guohuan Sewage Treatment Co., Ltd. ("Liaocheng Guohuan"), 100% interest in Ningguo Chengjian Sewage Treatment Co., Ltd. ("Ningguo Chengjian"), and 100% interest in Anhui Province Chengjian Huashan Sewage Treatment Co., Ltd. ("Chaohu Huashan") to Jinfeng Environmental Protection Co., Ltd. which resulted in the loss in non-controlling interests of RMB2,131,000.

(b) During the year, the Company repurchased 28,980,000 ordinary shares on the Hong Kong Stock Exchange at a total consideration of RMB31,001,000. The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value of RMB249,000. The total amount paid for the purchase of the shares of RMB30,752,000 was charged to the share premium of the Company. (note 30)

(c) From 14 February 2012, the Group provided for and utilised the safety production expense fund according to the *Circular on Printing and Issuing the Management Measures on the Enterprises Production Safety Expense of Enterprises Appropriation and Utilisation* (2012 No.16) issued by the Ministry of Finance and the State Administration of Work Safety of People's Republic of China.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**455,691**	536,796
Adjustments for:			
Finance costs	7	**498,570**	354,880
Foreign exchange differences	6	**12,425**	(22,213)
Gain on disposal of subsidiaries	33	**(23,192)**	–
Share of profit and loss of associates and joint ventures		**7,898**	(46,322)
Equity-settled share option expense		**–**	7,115
Bank interest income	5	**(7,517)**	(11,199)
Interest income from loans to third parties	5	**(40,302)**	(21,893)
Interest income from loans to an associate and joint ventures	5	**(5,970)**	–
Investment income from available-for-sale financial investments	5	**–**	(1,274)
Investment income from debt investments at fair value through profit or loss	5	**(4,841)**	–
Gain on addition to an investment in a joint venture		**(135)**	–
Investment income from reclassification from an investment in an associate to available-for-sale financial investments	5	**–**	(7,398)
Dividend income from equity investments at fair value through other comprehensive income	5	**(14,325)**	–
Depreciation of property, plant and equipment	6,12	**11,619**	9,258
Depreciation of investment properties	6	**702**	258
Amortisation of service concession intangible assets	6,16	**41,090**	16,444
Amortisation of other intangible assets	6	**310**	241
Loss on disposal of an associate	13	**8,154**	–
Loss on disposal of items of property, plant and equipment		**166**	802
Loss allowance for impairment of prepayments, other receivables and other assets	6	**31**	–
Loss allowance for impairment of trade receivables	6	**22,902**	4,341
		963,276	819,836
(Increase)/decrease in inventories		**(3,286)**	26,508
Increase in financial receivables		**(410,546)**	(1,460,877)
Increase in contract assets		**(672,236)**	–
Decrease in construction contracts		**–**	107,885
Increase in trade and bills receivables		**(202,791)**	(358,722)
(Increase)/decrease in prepayments, other receivables and other assets		**(43,482)**	101,278
Increase in trade and bills payables		**288,406**	347,290
Increase/(decrease) in other payables and accruals		**76,881**	(366,658)
Decrease in contract liabilities		**(48,282)**	–
Decrease in deferred income		**(4,784)**	–
Cash used in operations		**(56,844)**	(783,460)
Interest received		**14,368**	22,198
Income taxes paid		**(84,251)**	(51,461)
Net cash flows used in operating activities		**(126,727)**	(812,723)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	12	**(4,831)**	(71,378)
Additions to intangible assets		**(126,882)**	(62,882)
Investment income received from available-for-sale financial investments		**–**	1,274
Investment income received from debt investments at fair value through profit or loss		**4,841**	–
Proceeds from disposal of items of property, plant and equipment		**816**	–
Acquisition of subsidiaries, net of cash acquired	32	**(89,755)**	(431,371)
Acquisition of non-controlling interests		**(4,582)**	–
Disposal of subsidiaries	33	**249,582**	–
Disposal of an associate		**76,279**	–
Prepayment for acquisition		**–**	(20,927)
Additions to investments in associates and a joint venture		**(115,826)**	(117,000)
Additions of other non-current financial assets		**(793,030)**	–
Dividends received		**28,346**	20,843
(Increase)/decrease in pledged deposits		**15,128**	(102,411)
Disposal of available-for-sale financial investments		**–**	158,400
Increase in loans due from associates and joint ventures		**(104,995)**	–
Decrease in loans due from third parties included in other receivables		**–**	146,000
Net cash flows used in investing activities		**(864,909)**	(479,452)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase of interest-bearing bank and other borrowings		**3,855,945**	4,232,020
Repayment of interest-bearing bank and other borrowings		**(3,139,819)**	(2,391,660)
Interest paid		**(477,854)**	(331,501)
Dividends paid to shareholders		**(41,122)**	(33,080)
Proceeds from issue of corporate bonds		**1,216,000**	1,100,000
Repayment of corporate bonds		**(1,107,997)**	(300,000)
Shares repurchased	30	**(31,001)**	(9,844)
Dividends paid to a non-controlling shareholder		**(1,993)**	(4,796)
Capital contribution from a non-controlling shareholder		**4,189**	49,000
Net cash flows from financing activities		**276,348**	2,310,139
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(715,288)**	1,017,964
Cash and cash equivalents at beginning of year		**1,689,633**	675,285
Effect of foreign exchange rate changes, net		**1,901**	(3,616)
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**976,246**	1,689,633

1. CORPORATE AND GROUP INFORMATION

Kangda International Environmental Company Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2014.

The Company is an investment holding company and its subsidiaries are engaged in the design, construction, operation and maintenance of waste water treatment plants (the "WTPs"), reclaimed water treatment plants (the "RWTPs"), water distribution plants (the "WDPs"), sludge treatment plants (the "STPs") and other municipal infrastructure in the People's Republic of China (the "PRC", or Mainland China, which excludes for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan).

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Kangda Holdings Company Limited, a company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the principal subsidiaries of the Company are as follows:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kangda Environmental Protection Investment Limited (康達環保投資有限公司)*	The BVI	US$1	100	–	Investment holding company
Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司)*	Hong Kong	HK$1	–	100	Investment holding company
Kangyu Investment Co., Ltd. (康渝投資有限公司)# * **	PRC/Mainland China	USD200,000,000	–	100	Investment activities in Mainland China
Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. ("Chongqing Kangda") (重慶康達環保產業(集團)有限公司)# *	PRC/Mainland China	RMB1,730,000,000	–	100	Investment in WTPs and construction of municipal infrastructure in Mainland China
Kangda Environmental Protection Water Co., Ltd. (康達環保水務有限公司)# *	PRC/Mainland China	RMB80,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Shangqiu) Water Co., Ltd. (康達環保(商丘)水務有限公司)# *	PRC/Mainland China	RMB63,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kangda Environmental Protection (Suzhou) Water Co., Ltd. (康達環保(宿州)水務有限公司)# *	PRC/Mainland China	RMB23,000,000	–	100	Provision of WTP operation services in Mainland China
Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司)# *	PRC/Mainland China	RMB8,320,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Harbin Kangda Environmental Protection Investment Co., Ltd. (哈爾濱康達環保投資有限公司)# *	PRC/Mainland China	RMB30,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Linying Kangda Environmental Protection Water Co., Ltd. (臨潁康達環保水務有限公司)# *	PRC/Mainland China	RMB6,000,000	–	100	Provision of WTP operation services in Mainland China
Weifang Kangda Environmental Protection Water Co., Ltd. (濰坊康達環保水務有限公司)# *	PRC/Mainland China	RMB94,180,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd. (康達環保(高密)污水處理有限公司)# *	PRC/Mainland China	RMB17,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd. (康達環保(高密)鳳城生活污水處理有限公司)# *	PRC/Mainland China	RMB8,500,000	–	100	Provision of WTP operation services in Mainland China
Rushan Kangda Water Co., Ltd. (乳山康達水務有限公司)# *	PRC/Mainland China	RMB24,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Shangqiu Kangda Sewage Treatment Co., Ltd. (商丘康達污水處理有限公司)# *	PRC/Mainland China	RMB20,250,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Haiyang Xingcun Kangda Water Co., Ltd. (海陽行村康達水務有限公司)# *	PRC/Mainland China	RMB19,490,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Shanxian Kangda Environmental Protection Water Co., Ltd. (單縣康達環保水務有限公司)# *	PRC/Mainland China	RMB26,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda (Dongying) Environmental Protection Water Co., Ltd. ("Kangda Dongying") (康達(東營)環保水務有限公司)# *	PRC/Mainland China	US$13,115,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. (北京長盛思源環保科技有限公司)# *	PRC/Mainland China	RMB150,000,000	–	100	Investment, management of environmental projects and public infrastructure projects in Mainland China
Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd. (禹城東郊城建污水處理有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Puyang Kangda Environmental Protection Water Co., Ltd. (濮陽康達環保水務有限公司)# *	PRC/Mainland China	RMB50,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Liangshan Kangda Water Co., Ltd. (梁山康達水務有限公司)# *	PRC/Mainland China	RMB1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司)# *	PRC/Mainland China	RMB64,000,000	–	99	Construction of WTPs and provision of WTP operation services in Mainland China
Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司)# *	PRC/Mainland China	RMB85,000,000	–	99	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Gaomi) Water Co., Ltd. (康達環保(高密)水務有限公司)# *	PRC/Mainland China	RMB33,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal[#] subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Zhengzhou Xinzhongzhou Water Co., Ltd. ("Xinzhongzhou Water") (鄭州新中洲水務有限公司)[#] *	PRC/Mainland China	RMB100,300,000	–	70	Provision of WTP operation services in Mainland China
Xuzhou Kangda Environmental Protection Water Co., Ltd. (徐州康達環保水務有限公司)[#] *	PRC/Mainland China	RMB20,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Tianjin Kangda Environmental Protection Water Co., Ltd. (天津康達環保水務有限公司)[#] *	PRC/Mainland China	RMB16,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Chongqing Fulunde Technology Co., Ltd. (重慶弗侖德科技有限公司)[#] *	PRC/Mainland China	RMB2,000,000	–	100	Computer software development and sale in Mainland China
Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd. (宿州康達環保污水處理有限公司)[#] *	PRC/Mainland China	RMB36,000,000	–	100	Provision of WTP operation services in Mainland China
Gaomi Kangda Lvyi Sludge Treatment Co., Ltd. (高密康達綠意污泥處理有限公司)[#] *	PRC/Mainland China	RMB3,000,000	–	100	Construction and provision of STP operation services in Mainland China
Yunan Kangda Liangke Environment Treatment Co., Ltd. (郁南康達亮科環境治理有限公司)[#] *	PRC/Mainland China	RMB62,000,000	–	80	Construction, operation and maintenance of WTPs and other environmental protection projects in Mainland China
Weihai Kangda Ecological Environment Treatment Co., Ltd. ("Weihai Kangda") (威海康達生態環境綜合治理有限公司)[#] *	PRC/Mainland China	RMB100,000,000	–	88	Construction, operation and maintenance of WTPs, STPs, pipe networks and other municipal infrastructure in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Pingdingshan City Bay Water Treatment Co., Ltd. ("Pingdingshan City Bay") (平頂山市海灣水務有限公司)# *	PRC/Mainland China	RMB50,000,000	–	80	Construction of WTPs and provision of WTP operation services in Mainland China
Shenzhen Kangyue Environmental Protection Technology Co., Ltd. (深圳康粵環保科技有限公司)# *	PRC/Mainland China	RMB50,000,000	–	100	Development and sale of WTP equipment in Mainland China
Shenzhen Kangyuan Environmental Nano Science and Technology Co., Ltd. (深圳市康源環境納米科技有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Development and sale of WTP equipment in Mainland China
Dongping Kangda Water Co., Ltd. (東平康達水務有限公司)# *	PRC/Mainland China	US$5,200,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Chongqing Kangda Lvyi Energy Investment Co., Ltd. (重慶康達綠意能源投資有限公司)# *	PRC/Mainland China	RMB50,000,000	–	100	Investment in energy industry and provision of WTP operation services in Mainland China
Shangqiu Kangda Water Treatment Co., Ltd. (商丘康達水處理有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Chongqing Kangda Zhishang Environmental Protection Industry Co., Ltd. (重慶康達至尚環保產業有限公司)# *	PRC/Mainland China	RMB70,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Xinzheng Kangda Water Co., Ltd. (新鄭康達水務有限公司)# *	PRC/Mainland China	RMB1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Qishan County Dayuan Sewage Treatment Co., Ltd. ("Qishan") (岐山縣大源污水處理有限責任公司)# *	PRC/Mainland China	RMB3,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Weifang Shuangjie Water Purification Material Co., Ltd. ("Weifang Shuangjie") (濰坊雙傑淨水材料有限公司)# *	PRC/Mainland China	RMB8,000,000	–	100	Sale of water purifying material in Mainland China
Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司)# *	PRC/Mainland China	RMB110,000,000	–	99	Construction of WTPs and provision of WTP operation services in Mainland China
Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司)# *	PRC/Mainland China	RMB70,000,000	–	99	Construction of WTPs and provision of WTP operation services in Mainland China
Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司)# *	PRC/Mainland China	RMB75,000,000	–	99	Construction of WTPs and provision of WTP operation services in Mainland China
Qitaihe Wanxinglong Water Co., Ltd. ("Qitaihe") (七台河萬興隆水務有限責任公司)# *	PRC/Mainland China	RMB90,000,000	–	100	Construction and provision of WTP and RWTP operation services and reclaimed water treatment services in Mainland China
Xinzheng Xinkang Water Co., Ltd. ("Xinzheng Xinkang") (新鄭新康水務有限公司)# *	PRC/Mainland China	RMB60,000,000	–	70	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Linyi) Water Co., Ltd. (康達環保(臨沂)水務有限公司)# *	PRC/Mainland China	RMB15,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Fengxian Kangda Environmental Protection the second Sewage treatment Co., Ltd. (豐縣康達環保第二污水處理有限公司)# *	PRC/Mainland China	RMB20,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jining Kangda Environmental Protection Water Co., Ltd. (濟寧康達環保水務有限公司)# *	PRC/Mainland China	RMB25,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Haiyang Kangda Environmental Protection Water Co., Ltd. (海陽康達環保水務有限公司)# *	PRC/Mainland China	RMB6,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Wendeng Kangda Environmental Protection Water Co., Ltd. (文登康達環保水務有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Weifang Binhai Kangda Environmental Protection Water Co., Ltd. (濰坊濱海康達環保水務有限公司)# *	PRC/Mainland China	RMB10,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Kangda Environmental Protection (Hebi) Water Treatment Co., Ltd. ("Hebi Kangda") (康達環保(鶴壁)水處理有限公司)# *	PRC/Mainland China	RMB5,500,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Pingdingshan Kangda Environmental Protection Water Co., Ltd. (平頂山康達環保水務有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Huadian Kangda Environmental Protection Water Co., Ltd. (樺甸康達環保水務有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Fengxian Kangda Environmental Protection the third Sewage Treatment Co., Ltd. (豐縣康達第三污水處理有限公司)# *	PRC/Mainland China	RMB3,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Suihua Kangda Environmental Protection Water Co., Ltd. (綏化康達環保水務有限公司)# *	PRC/Mainland China	RMB1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jixi County Chengjian Sewage Treatment Co., Ltd. (績溪縣城建污水處理有限公司)# *	PRC/Mainland China	RMB8,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Dacheng Chengjian Environmental Protection Sewage Treatment Co., Ltd. (大城縣城建環保污水處理有限公司)# *	PRC/Mainland China	RMB9,600,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiyuan City Yuchuan Chengjian Sewage Treatment Co., Ltd. (濟源市玉川城建污水處理有限公司)# *	PRC/Mainland China	RMB30,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Dandong Kangda Environmental Protection Water Co., Ltd. (丹東康達環保水務有限公司)# *	PRC/Mainland China	RMB27,800,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Sanmenxia Kangda Water Co., Ltd. (三門峽康達水務有限公司)# *	PRC/Mainland China	RMB10,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Tianjin Kangda Lvyi Sludge Treatment Co., Ltd. (天津康達綠意污泥處理有限公司)# *	PRC/Mainland China	RMB2,000,000	–	100	Construction of STPs and provision of STP operation services in Mainland China
Jiaoling Kangda Environmental Governance Co., Ltd. (蕉嶺康達環境治理有限公司)# *	PRC/Mainland China	RMB56,172,000	–	97	Construction, operation and maintenance of WTPs and other environmental protection projects in Mainland China
Shandong Fengmin Water Co., Ltd. ("Shandong Fengmin") (山東豐民水務有限公司)# *	PRC/Mainland China	RMB100,000,000	–	100	Construction of WDPs and provision of WDP operation services in Mainland China
Wenzhou Chuangyuan Water Co., Ltd. ("Wenzhou Chuangyuan") (溫州市創源水務有限公司)# *	PRC/Mainland China	RMB52,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Meiling Environmental Technology (Zibo) Co., Ltd. ("Meiling Zibo") (美陵環境科技(淄博)有限公司)# *	PRC/Mainland China	SGD1,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Jining Meiling Sewage Purification Co., Ltd. ("Jining Meiling") (濟寧美陵污水淨化有限公司)# *	PRC/Mainland China	RMB5,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Qingzhou Meiling Sewage Purification Co., Ltd. ("Qingzhou Meiling") (青州市美陵污水淨化有限公司)# *	PRC/Mainland China	RMB5,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the principal subsidiaries of the Company are as follows: *(continued)*

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sichuan Weiyuan Hefeng Bioengineering Co., Ltd. ("Weiyuan Hefeng") (四川威遠禾豐生物工程有限公司) # **☆	PRC/Mainland China	RMB45,000,000	–	100	Construction of WTPs and provision of WTP operation services in Mainland China
Taiyuan Kangjin Water Co., Ltd. ("Taiyuan Kangjin") (太原康晋水務有限公司) # *	PRC/Mainland China	RMB194,450,000	–	99.44	Construction of WTPs and provision of WTP operation services in Mainland China
Weiyuan Kangda Environmental Protection Co., Ltd. ("Weiyuan Kangda") (威遠康達環保有限公司) # *	PRC/Mainland China	RMB38,495,800	–	95	Construction of WTPs and provision of WTP operation services in Mainland China

\# The names of these companies referred to in this report represent management's best effort in translating the Chinese names of the companies registered in Mainland China, as no English names have been registered.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** Kangyu Investment Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.

☆ During the year, the Group acquired one company. Further details of the acquisition are included in note 32 to the consolidated financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for equity investments designed at fair value through other comprehensive income which has been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB1,171,955,000 (31 December 2017: net current liabilities: RMB810,409,000). In addition, the Group has contracted capital commitments of RMB303,306,000 and commitments in respect of service concession arrangements of RMB3,218,966,000. Part of such commitments is expected to be due in the foreseeable future. The directors of the Company have considered the Group's available sources of funds as at the date of approval of these consolidated financial statements, which are as follows:

- Unutilised banking facilities available to the Group that the directors of the Company are confident of them being able to be continuously renewed upon their respective expirations in the foreseeable future based on the Group's past experience and good credit standing;

- Unutilised facilities to issue domestic medium-term notes by the Group as approved by the relevant PRC government authorities;

- Cash inflows arising from the Group's activities subsequent to 31 December 2018; and

- Other available sources of financing from banks, financial institutions and other institutions given the Group's credit history.

In light of the available funding as mentioned above, and after taking into account the operating performance of the Group and cash flow projection prepared by the directors of the Company. The directors of the Company are confident that the Group will have sufficient working capital to meet with its financial obligations and operation requirements in the foreseeable future of at least up to 31 December 2019. Hence the directors of the Company are of the opinion that it is appropriate to prepare these consolidated financial statements under the going concern basis.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's consolidated financial statements.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and Annual Improvements to IFRSs 2014–2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all aspects of the accounting for financial instruments: classification and measurement, and impairment.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

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

IFRS 9 Financial Instruments *(continued)*

(a) *Classification and measurement*

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Notes	IAS 39 measurement Category	IAS 39 measurement Amount	Reclassification	ECL	IFRS 9 measurement Amount	IFRS 9 measurement Category
			RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets							
Equity investments designated at fair value through other comprehensive income		N/A	–	621,000	–	621,000	FVOCI[1] (equity)
From: Available-for-sale financial investments	(i)		–	621,000	–	–	
Available-for-sale financial investments		AFS[2]	621,000	(621,000)	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)		–	(621,000)	–	–	
Trade and bills receivables		L&R[3]	1,146,070	–	(3,076)	1,142,994	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	556,011	–	(7,497)	548,514	AC
Financial receivables	(ii)		7,816,234	–	–	7,816,234	
Pledged deposits		L&R	194,855	–	–	194,855	AC
Cash and cash equivalents		L&R	1,689,633	–	–	1,689,633	AC
			12,023,803	–	(10,573)	12,013,230	
Other assets							
Service concession intangible assets	(ii)		679,785	–	–	679,785	
Contract assets	(ii)		1,585,991	–	–	1,585,991	
Deferred tax assets			81,652	–	2,184	83,836	
			2,347,428	–	2,184	2,349,612	
Total assets			14,371,231	–	(8,389)	14,362,842	

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

IFRS 9 Financial Instruments *(continued)*

(a) *Classification and measurement (continued)*

		IAS 39 measurement				IFRS 9 measurement	
		Category	Amount	Reclassification	ECL	Amount	Category
	Notes		RMB'000	RMB'000	RMB'000	RMB'000	
Financial liabilities							
Trade and bills payables		AC	1,290,509	–	–	1,290,509	AC
Financial liabilities included in other payables and accruals		AC	442,441	–	–	442,441	AC
Corporate bonds		AC	2,048,841	–	–	2,048,841	AC
Interest-bearing bank and other borrowings		AC	6,395,062	–	–	6,395,062	AC
			10,176,853	–	–	10,176,853	
Other liabilities							
Deferred tax liabilities			704,633	–	–	704,633	
Total liabilities			10,881,486	–	–	10,881,486	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale financial investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale financial investments as equity investments at fair value through other comprehensive income.

(ii) The gross carrying amounts of the financial receivables, service concession intangible assets, the contract assets and the contract liabilities under the column "IAS 39 measurement — Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in IFRS 15 *Revenue from Contracts with Customers*.

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

IFRS 9 Financial Instruments *(continued)*

(b) Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 20 and 21 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	**ECL allowances under IFRS 9 at 1 January 2018 RMB'000**
Trade receivables	–	3,076	**3,076**
Financial assets included in prepayments, other receivables and other assets	–	7,497	**7,497**
	–	10,573	**10,573**

(c) Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	1,739,344
Recognition of expected credit losses for trade receivables under IFRS 9	(3,076)
Recognition of expected credit losses for Financial assets included in prepayments, other receivables and other assets under IFRS 9	(7,497)
Deferred tax in relation to the above	2,184
Balance as at 1 January 2018 under IFRS 9	1,730,955

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 2.5, 4 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	31 December 2017 (Audited) RMB'000	Reclassifications under IFRS 15 RMB'000	**1 January 2018 (As restated) RMB'000**
Non-current assets				
Service concession intangible assets	(a)	914,503	(234,718)	**679,785**
Financial receivables	(a)	7,676,867	(1,257,193)	**6,419,674**
Contract assets	(a)	–	1,491,911	**1,491,911**
Current assets				
Financial receivables	(a)	1,410,155	(13,595)	**1,396,560**
Construction contracts	(b)	80,485	(80,485)	**–**
Contract assets	(a)/(b)	–	94,080	**94,080**
Current liabilities				
Other payables and accruals	(c)	514,524	(66,341)	**448,183**
Contract liabilities	(c)	–	66,341	**66,341**

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

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

IFRS 15 Revenue from Contracts with Customers *(continued)*

(a) Service concession arrangements

The Group has entered into a number of service concession arrangements with the Grantors. The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for the Grantors and receives in return the rights to operate the service project concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, the service project should be transferred to the Grantors 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 rights to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure that have been built. In prior reporting periods, the Group allocated the consideration received from the Grantors into revenue from construction and operation and interest income, in accordance with IFRIC 12 *Service Concession Arrangements*. Upon the adoption of IFRS 15, the construction revenue allocated to the construction service will be recognised over the period that the construction services are provided; the operation revenue allocated to the operation service will be recognised over the period that the operation services are provided; and the financial revenue will be recognised by applying the effective interest method to the amortised cost of financial assets over the period of the service concession arrangements.

Before the adoption of IFRS 15, the Group provides construction or upgrade services, the consideration received or receivable by the Group shall be recognised at its fair value. The consideration may be rights to financial assets or intangible assets. Upon adoption of IFRS 15, both financial assets and intangible assets of consideration are classified as contract assets during the construction or upgrade period. Accordingly, the Group reclassified RMB1,270,788,000 from financial assets to contract assets and reclassified RMB234,718,000 from Service concession intangible assets to contract assets as at 1 January 2018.

For the year ended 31 December 2018, the Group has concluded that the adoption of IFRS 15 did not have any material impact on the Group's revenue recognition.

(b) EPC arrangements

Before the adoption of IFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the construction services were billed to customers. Upon the adoption of IFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB80,485,000 from construction contracts to contract assets as at 1 January 2018.

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

IFRS 15 Revenue from Contracts with Customers *(continued)*

(c) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB66,341,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

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

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments under Annual Improvements to IFRSs 2014–2016 Cycle

- IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletes the short-term exemptions for first-time adopters because the reliefs provided in the exemptions are no longer applicable. The amendments are not applicable to the Group's financial statements.

- IAS 28 Investments in Associates and Joint Ventures: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. The amendments did not have any impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments* [1]
IFRS 16	*Leases*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS1 and IAS 8	*Definition of Material*[2]
Amendments to IFRS 3	*Definition of a Business*[2]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

IFRIC Interpretation 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, I(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, I(SIC)-Int 15 Operating Leases — Incentives and I(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB12,476,000 and lease liabilities of RMB12,476,000 will be recognised at 1 January 2019.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Amendments to IFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of a contract to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The Group expects to adopt these amendments from 1 January 2019 and to apply the exemption from restating comparative information of prior periods. Any difference between the previous carrying amount and the adjusted carrying amount will be recognised in the opening balance of equity. The amendments do not apply to the Group as the Group does not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on IFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. As there is no specific relief on this clarification, this requirement shall be applied retrospectively. The Group's current accounting policy is consistent with this clarification and therefore the adoption of the amendments is not expected to have any impact on the Group.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

Amendments to IAS 28 issued in October 2017 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments under Annual Improvements to IFRSs 2015–2017 Cycle

Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017, sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- IFRS 3 *Business Combinations:* Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- IFRS 11 *Joint Arrangements:* Clarifies that when an entity that participates in (but does not have joint control of) a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- IAS 12 *Income Taxes:* Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- IAS 23 *Borrowing Costs:* Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace the existing IFRS 4 *Insurance Contracts*. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach);

- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The standard is not expected to have any impact on the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 10 and IAS 28 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to: (i) determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and (ii) determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS1 and IAS 8 Definition of Material

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IFRS 3 Definition of a Business

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings and other infrastructure	3.13%–4.50%
Machinery	6.67%–18.00%
Office equipment and others	9.50%–18.00%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of such properties to its residual value over its estimated useful life. The principal annual rate used for this purpose is as follows:

Buildings	4.50%

Intangible assets (other than goodwill)

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

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Operating concessions

For details of the accounting policy of operating concessions, please refer to "Service concession arrangements" below.

Operating contract rights

Operating contract rights represent the fair value of operating rights of WTPs or RWTPs acquired through business combination. These intangible assets are amortised on the straight-line basis over the remaining period of the operating contract rights.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Service concession arrangements

The Group has entered into a number of service concession arrangements with the Grantors. The service concession arrangements consist of Build-Operate-Transfer arrangements and Transfer-Operate-Transfer arrangements. Under the BOT arrangements, the Group carries out construction work of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for the Grantors and receives in return the rights to operate the service project concerned for a specified period of time in accordance with the pre-established conditions set by the Grantors, and the service project should be transferred to the Grantors 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 rights to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure that have been built.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements *(continued)*

Consideration given by the Grantors

A financial asset (financial receivable) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantors for the construction services rendered and/or the consideration paid and payable by the Group for the rights to operate WTPs, and the Grantors have little, if any, discretion to avoid payment, usually because the agreements are enforceable by law. The Group has an unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (financial receivable) is accounted for in accordance with the policy set out for *loans and receivables* under "Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)" and the policy set out for *Financial assets at amortised cost (debt instruments)* under "Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives the rights to charge users of public service or the grantors remunerate the Group on the basis of the extent of use of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure by users, but with no guarantees as to the amounts that will be paid to the Group, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public use the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "intangible assets" above, which is amortised on a straight-line basis over the terms of operation ranging from 25 to 30 years.

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

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Build-Transfer (the "BT") arrangements

The Group carries out construction work of municipal infrastructure or infrastructure related to the WTPs under BT contracts for certain PRC governmental authorities or agencies of the government and agrees with these BT customers to enter into a repurchase agreement for the above construction services for periods ranging from three to four years (the "Repurchase Period").

Consideration given by the BT customers

A financial asset (financial receivable) is recognised when the Group has an unconditional right under the BT arrangements to receive a fixed and determinable amount of payments during the Repurchase Period and is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)" below.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" below.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(continued)*

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(continued)*

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

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

General approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

General approach (continued)

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

The various companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of the year whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) *(continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss and other comprehensive income, is removed from other comprehensive income and recognised in the "profit or loss".

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss and other comprehensive income — is removed from other comprehensive income and recognised in the consolidated statement of profit or loss and other comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated statement of profit or loss and other comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of reporting period of the future expenditures expected to be required to settle the obligation.

The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) BOT arrangements

Revenue from the construction services under the BOT agreements is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar locations, and is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

(b) EPC arrangements

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Revenue from contracts with customers (continued)

(c) Provision of operation services

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

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" below;

(b) from the rendering of operation service of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure, when the service is provided;

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

(d) rental income, on a time proportion basis over the lease terms; and

(e) dividend income, when the shareholders' rights to receive payment have been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

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

(a) The costs relate directly to a contract or to an anticipated contract that the Group can specifically identify.

(b) The costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the consolidated statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before 1 January 2018)

Contract revenue primarily comprises (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services under the BT arrangements, (ii) the fair value of the construction services under the BOT arrangements, and (iii) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services under Engineering Procurement Construction contracts.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts (applicable before 1 January 2018) *(continued)*

Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

BT arrangements

Revenue from the construction services under the BT arrangements is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

BOT arrangements

Revenue from the construction services under the BOT agreements is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar locations, and is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

EPC arrangements

When the outcome of a construction contract under the EPC agreements can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract 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 costs are recognised as an expense in the period in which they are incurred.

When the outcome of a construction contract under the EPC agreements can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveyors of work performed. 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. An expected loss on a contract is recognised immediately in profit or loss.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

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

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The consolidated financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

As at the end of the year, the assets and liabilities of these entities whose functional currencies differ from the presentation currency are translated into RMB at the exchange rates prevailing at the end of the year and the statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Revenue from contracts with customers

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

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Revenue from contracts with customers (continued)

(i) Accounting for service concession arrangements

The Group engages in certain service concession arrangements in which the Group carries out construction work of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for the Grantors and receives in return the rights to operate the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure concerned in accordance with the pre-established conditions set by the Grantors. In accordance with IFRIC 12 *Service Concession Arrangements*, the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure under the service concession arrangements may be classified as intangible assets or financial assets. The WTPs, RWTPs, WDPs, STPs or other municipal infrastructure are classified as intangible assets if the Group receives a right (a licence) to charge users of the public service or if the Grantors remunerate the Group on the basis of the extent of use of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure by users, but with no guarantees as to the amounts that will be paid to the Group. Whenever only part of the investment by the Group under these service concession arrangements is covered by a payment commitment from the Grantors, it is recognised as a financial receivable up to the amount guaranteed by the Grantors, and as an intangible asset for the balance. The Group recognises a financial receivable if it has an unconditional contractual right under the service concession arrangements to receive a determinable amount of payments during the concession period irrespective of the usage of the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure.

Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

Revenue from the construction service under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. The Group's prevailing margins of gross construction margin were valued by Crowe Horwath (HK) Consulting & Valuation Limited ("Crowe Horwath (HK)"), an independent third-party valuer that has appropriate qualifications and recent experience in valuation of gross construction margin.

When the Group receives a payment during the concession period, it will apportion such payment among (i) a repayment of the financial receivables (if any), which will be used to reduce the carrying amount of the financial receivables on the statement of financial position, (ii) interest income, which will be recognised as revenue in profit or loss and (iii) revenue from operating and maintaining the WTPs, RWTPs, WDPs, STPs or other municipal infrastructure in profit or loss.

Judgement is also exercised in determining the fair value of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

Revenue from contracts with customers (continued)

(ii) Accounting for EPC arrangements

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

Accounting for business combinations

Accounting for business combinations requires the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. In connection with the business combination in note 32, the Group has undertaken a process to identify all assets and liabilities acquired. Judgements made in identifying all acquired assets and determining the estimated fair value assigned to each class of assets acquired and liabilities assumed could materially impact the calculation of goodwill. Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether certain subsidiaries of the Group are determined to be Chinese resident enterprises by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's subsidiaries in the PRC will distribute retained profits as at the end of the year in the foreseeable future, and accordingly no additional provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of the year, based on changes in circumstances.

Current income tax and deferred income tax

The Group is subject to income taxes in Hong Kong and Mainland China. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise. Deferred tax assets relating to certain temporary differences or unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or the unused losses can be utilised.

The realisation of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place. Details of deferred tax assets are contained in note 19 to the consolidated financial statements.

Percentage of completion of construction contracts

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs. Due to the nature of the activity undertaken in construction works, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the percentage of completion of construction works. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) direct material costs and direct labour, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management refers to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on material costs, labour costs and other costs.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables, financial receivables, and contract assets

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

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables, financial receivables, and contract assets is disclosed in note 18, note 20 and note 22 to the financial statements, respectively.

Financial receivables

Estimation is exercised in determining the fair values of the financial receivables at initial recognition. These fair values are computed on the discounted cash flow method using a discount rate based upon the market-related rate for a similar instrument as at the date of initial recognition. The assumptions and estimates used can materially affect the fair values of the financial receivables.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

(a) the segment of Urban Water Treatment engages in the design, construction, upgrade and operation of WTPs, RWTPs, STPs, WDPs, and in the operation and maintenance of waste water treatment facilities entrusted by governments ("O&M");

(b) the segment of Water Environment Comprehensive Remediation engages in river harnessing and improvement, foul water body treatment, sponge city construction, pipeline network projects and construction of urban comprehensive pipe tunnel; and

(c) the segment of Rural Water Improvement engages in the construction and operation related to "the Construction of Beautiful Village" such as: waste water treatment, pipeline construction for collecting waste water and rural living environment improvement.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that unallocated income and gains, finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets exclude investment properties, equity investments designated at fair value through other comprehensive income, other non-current financial assets, unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, other receivables and other assets, pledged deposits, unallocated cash and cash equivalents, unallocated trade and bills receivables, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude corporate bonds, unallocated other payables and accruals, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2018	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	2,462,391	457,330	101,606	3,021,327
	2,462,391	457,330	101,606	3,021,327
Segment results	639,419	66,969	18,254	724,642
Reconciliation:				
Unallocated income and gains				81,759
Share of profit and loss of unallocated associates				(9,076)
Share of profit and loss of unallocated joint ventures				(370)
Corporate and other unallocated expenses				(95,442)
Unallocated finance costs				(245,822)
Profit before tax				455,691
Segment assets	12,321,734	1,542,337	477,392	14,341,463
Reconciliation:				
Corporate and other unallocated assets				2,183,764
Total assets				16,525,227
Segment liabilities	8,942,306	654,519	390,707	9,987,532
Reconciliation:				
Corporate and other unallocated liabilities				2,216,022
Total liabilities				12,203,554
Other segment information				
Investments in associates	–	200,591	–	200,591
Unallocated investments in associates				21,252
Investments in joint ventures	76,484	50,155	–	126,639
Unallocated investments in joint ventures				13,764
Share of profit and loss of associates	2,818	663	–	3,481
Share of profit and loss of unallocated associates				(9,076)
Losses on disposal of an associate	(8,154)	–	–	(8,154)
Share of profit and loss of joint ventures	(4,940)	3,007	–	(1,933)
Share of profit and loss of unallocated joint ventures				(370)
Depreciation and amortisation	48,629	124	–	48,753
Unallocated depreciation and amortisation				4,968
Total depreciation and amortisation				53,721
Capital expenditure	135,983	55	101,605	237,643
Unallocated amounts				491
Total capital expenditure*				238,134

* Capital expenditure consists of additions to property, plant and equipment and service concession contract assets.

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2017	Urban Water Treatment RMB'000	Water Environment Comprehensive Remediation RMB'000	Rural Water Improvement RMB'000	Total RMB'000
Segment revenue				
Sales to external customers	2,064,436	390,855	68,649	2,523,940
	2,064,436	390,855	68,649	2,523,940
Segment results	694,658	59,894	12,141	766,694
Reconciliation:				
Unallocated income and gains				44,423
Share of profit and loss of unallocated associates				39,510
Corporate and other unallocated expenses				(100,864)
Unallocated finance costs				(212,967)
Profit before tax				536,796
Segment assets	11,485,114	1,209,851	352,117	13,047,082
Reconciliation:				
Corporate and other unallocated assets				2,188,512
Total assets				15,235,594
Segment liabilities	8,063,003	477,881	347,370	8,888,254
Reconciliation:				
Corporate and other unallocated liabilities				2,140,479
Total liabilities				11,028,733
Other segment information				
Investments in associates	95,636	103,261	–	198,897
Unallocated investments in associates				30,011
Investments in joint ventures	81,424	47,148	–	128,572
Share of profit and loss of associates	3,196	1,024	–	4,220
Share of profit and loss of unallocated associates				39,510
Share of profit and loss of joint ventures	3,129	(537)	–	2,592
Depreciation and amortisation	22,693	–	–	22,693
Unallocated depreciation and amortisation				3,508
Total depreciation and amortisation				26,201
Capital expenditure	83,571	563	68,649	152,783
Unallocated amounts				4,798
Total capital expenditure*				157,581

* Capital expenditure consists of additions to property, plant and equipment and intangible assets

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2018 **RMB'000**	2017 RMB'000
Mainland China	**3,021,327**	2,523,940

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

(b) Non-current assets

	2018 **RMB'000**	2017 RMB'000
Mainland China	**11,739,368**	10,190,495

All the non-current assets are located in Mainland China. The non-current asset information above excludes deferred tax assets.

Information about major customers

During the year, the revenue derived from the Group's two largest customers is as follows:

Year ended 31 December 2018

	Urban Water Treatment RMB'000	**Total RMB'000**
Customer A	**255,950**	**255,950**
Customer C	**238,796**	**238,796**
	494,746	**494,746**

Year ended 31 December 2017

	Urban Water Treatment RMB'000	Total RMB'000
Customer A	256,278	256,278
Customer B	192,998	192,998
	449,276	449,276

4. REVENUE

The Group has entered into a number of service concession arrangements with the Grantors on a BOT or a TOT basis in respect of its WTPs, RWTPs, WDPs, STPs or other municipal infrastructure. These service concession arrangements generally involve the Group as an operator in (i) constructing WTPs, RWTPs, WDPs, STPs or other municipal infrastructure for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating WTPs, RWTPs, WDPs, STPs or other municipal infrastructure on behalf of the Grantors for periods ranging from 17 to 30 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 carries out construction works of other municipal infrastructure under EPC arrangements and agrees with EPC customers to enter into a settled agreement for the construction work during the construction.

The Group also carries out construction works of municipal infrastructure or infrastructure related to WTPs under BT arrangements for certain BT customers and agrees with these BT customers to enter into a repurchase agreement for the construction work for periods ranging from three to four years.

Revenue represents: (i) an appropriate proportion of contract revenue of construction contracts under BOT arrangements, BT arrangements, EPC arrangements and other construction service projects, net of tax and government surcharges; (ii) the revenue from operation of WTPs, RWTPs, WDPs, STPs or other municipal infrastructure under BOT arrangements and TOT arrangements and the provision of Operation and Maintenance services; and (iii) financial income on financial receivables. The amount of each significant category of revenue during the year is as follows:

Revenue from contracts with customers

	2018 **RMB'000**	2017 RMB'000
Revenue from construction services	**1,654,185**	1,355,980
Revenue from operating services	**819,684**	695,044
Financial income	**547,458**	472,916
	3,021,327	2,523,940

5. OTHER INCOME AND GAINS

	2018 RMB'000	2017 RMB'000
Government grants (note (a))	**119,365**	124,351
Interest income from loans to third parties	**40,302**	21,893
Gain on disposal of subsidiaries	**23,192**	–
Dividend income from equity investments at fair value through other comprehensive income	**14,325**	–
Bank interest income	**7,517**	11,199
Interest income from loans to an associate and joint ventures	**5,970**	–
Investment income from debt investments at fair value through profit or loss	**4,841**	–
Rental income less depreciation of investment properties	**510**	533
Investment income from reclassification from an investment in an associate to available-for-sale financial investments	**–**	7,398
Foreign exchange differences	**–**	22,213
Investment income from available-for-sale financial investments	**–**	1,274
Others	**2,498**	1,806
	218,520	190,667

Note:

(a) Government grants primarily represented the value-added tax refund and the environmental protection funds for environmental technological improvements granted by government authorities. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost for construction services		**1,402,595**	1,174,665
Cost for operation services		**525,547**	395,954
Total cost of services		**1,928,142**	1,570,619
Depreciation of property, plant and equipment	12	**11,619**	9,258
Amortisation of service concession intangible assets	16	**41,090**	16,444
Amortisation of other intangible assets		**310**	241
Loss allowance for impairment of trade receivables	20	**22,902**	4,341
Loss allowance for impairment of other receivables	21	**31**	–
Minimum lease payments under operating leases for buildings		**7,235**	6,977
Auditor's remuneration		**3,000**	3,000
Employee benefit expense (including directors' remuneration):			
Wages, salaries and allowances, social securities and benefits		**238,455**	187,363
Pension scheme contributions (defined contribution scheme)		**25,374**	20,774
Equity-settled share option expenses		**–**	7,115
Total employee benefit expense		**263,829**	215,252
Operating lease income		**(1,212)**	(791)
Less: Depreciation of investment properties		**702**	258
Rental income less depreciation of investment properties	5	**(510)**	(533)
Bank interest income	5	**(7,517)**	(11,199)
Government grants	5	**(119,365)**	(124,351)
Interest income from loans to third parties	5	**(40,302)**	(21,893)
Interest income from loans to an associate and joint ventures	5	**(5,970)**	–
Investment income from available-for-sale financial investments	5	**–**	(1,274)
Investment income from debt investments at fair value through profit or loss		**(4,841)**	–
Investment income from reclassification from an investment in an associate to available-for-sale financial investments	5	**–**	(7,398)
Loss on disposal of items of property, plant and equipment, net		**166**	802
Foreign exchange differences, net		**12,425**	(22,213)

7. FINANCE COST

	2018 RMB'000	2017 RMB'000
Interest-bearing bank and other borrowings	**364,893**	276,024
Interest on corporate bonds	**133,677**	78,856
	498,570	354,880

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018 RMB'000	2017 RMB'000
Fees	**2,306**	2,222
Other emoluments:		
Salaries, allowances and benefits in kind	**9,028**	9,412
Equity-settled share option expenses	**–**	1,852
Pension scheme contributions (defined contribution scheme)	**152**	123
Total	**11,486**	13,609

During the year ended 31 December 2014, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' remuneration disclosures.

(i) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Mr. Tsui Yiu Wa Alec	**314**	308
Mr. Peng Yongzhen	**314**	308
Mr. Chang Qing	**314**	308
	942	924

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(ii) Executive directors and non-executive director

	Fees RMB'000	Equity-settled share option expenses RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2018					
Executive directors:					
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	**314**	**–**	**2,147**	**–**	**2,461**
Mr. Zhang Weizhong (張為眾)	**210**	**–**	**2,142**	**–**	**2,352**
Ms. Liu Zhiwei (劉志偉)	**210**	**–**	**1,688**	**55**	**1,953**
Mr. Gu Weiping (顧衛平)	**210**	**–**	**136**	**–**	**346**
Mr. Wang Litong (王立彤)	**210**	**–**	**1,646**	**42**	**1,898**
Mr. Wang Tianci (王天賜)	**210**	**–**	**1,269**	**55**	**1,534**
	1,364	**–**	**9,028**	**152**	**10,544**
Year ended 31 December 2017					
Executive directors:					
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	308	–	2,147	–	2,455
Mr. Zhang Weizhong (張為眾)	205	547	2,142	–	2,894
Ms. Liu Zhiwei (劉志偉)	205	463	1,669	31	2,368
Mr. Gu Weiping (顧衛平)	205	421	546	–	1,172
Mr. Wang Litong (王立彤)	205	421	1,643	42	2,311
Mr. Wang Tianci (王天賜)	118	–	1,265	51	1,434
	1,246	1,852	9,412	124	12,634
Non-executive director:					
Mr. Zhuang Ping (莊平)*	52	–	–	–	52
	1,298	1,852	9,412	124	12,686

* Mr. Zhuang Ping was resigned from the Company as a non-executive director on 31 March 2017.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included four directors during the year ended 31 December 2018 and five directors during the year ended 31 December 2017 respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one highest paid employee during the year ended 31 December 2018 who is neither a director nor a chief executive of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,581**	–
	1,581	–

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

	Number of employees	
	2018	2017
HK$1,500,000 to HK$2,000,000	**1**	–

10. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得税法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of waste water treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first years of generating operating revenue (the "3+3 Tax Holiday"). At the end of the year, these subsidiaries were qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday.

Pursuant to Caishui [2011] No. 58 *Circular of the Ministry of Finance, the State Administration of Taxation, the General Administration of Customs on Issues Relating to Preferential Tax Policies for the Development of the Western Region* (財政部、國家税務總局、海關總署關於西部大開發税收優惠政策問題的通知), certain subsidiaries operated in the western region of Mainland China were subject to a preferential corporate income tax rate of 15%, provided that the main business of the subsidiaries belongs to the industrial projects stipulated in the Catalogue of Encouraged Industries in the Western Region, and such main business income accounts for more than 70% of the total income of the subsidiaries.

Under the relevant PRC Corporate Income Tax Law and respective regulations, except for preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

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

10. INCOME TAX EXPENSE *(continued)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

	2018	2017
	RMB'000	RMB'000
Current		
— Mainland China	**73,213**	70,704
Deferred	**72,588**	38,483
Total tax charge for the year	**145,801**	109,187

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

	2018		2017	
	RMB'000	**%**	RMB'000	%
Profit before tax	**455,691**		536,796	
Tax at the statutory tax rate	**113,923**	**25.0**	134,199	25.0
Lower tax rates for specific provinces or enacted by local authority	**(26,490)**	**(5.8)**	(9,408)	(1.8)
Expenses not deductible for tax	**4,391**	**1.0**	3,714	0.7
Tax losses not recognised	**22,607**	**5.0**	4,131	0.8
Tax losses utilised from previous periods	**(1,603)**	**(0.4)**	(10,019)	(1.9)
Reversal of tax losses recognised in previous periods	**20,002**	**4.4**	–	–
Tax effect of disposal of subsidiaries	**10,997**	**2.4**	–	–
Profits and losses attributable to joint ventures and associates	**1,974**	**0.4**	(13,430)	(2.5)
Tax charge at the Group's effective rate	**145,801**	**32.0**	109,187	20.3

The share of tax attributable to associates and joint ventures amounting to RMB696,000 (2017: RMB8,228,000) is included in "Share of profits and losses of associates" and "Share of profit and loss of joint ventures" in the profit or loss.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

At the end of the year, the Company had nil share options outstanding under the Share Option Scheme (2017: 28,160,000). The diluted earnings per share amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

The share options that could have potentially dilutive impact on the basic earnings per share amount were issued in December 2014. No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2017 in respect of a dilution as the share options outstanding had anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**303,350**	414,448

	2018	2017
	Number of shares	Number of shares
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations	**2,044,676,000**	2,067,506,000

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2018

	Buildings and other infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018:					
Cost	114,889	30,596	42,252	21,757	209,494
Accumulated depreciation and impairment	(19,989)	(14,245)	(23,051)	–	(57,285)
Net carrying amount	94,900	16,351	19,201	21,757	152,209
At 1 January 2018, net of accumulated depreciation and impairment	94,900	16,351	19,201	21,757	152,209
Additions	677	1,159	1,329	1,666	4,831
Acquisition of a subsidiary (note 32)	–	–	14	–	14
Disposals	–	–	(982)	–	(982)
Disposal of subsidiaries (note 33)	(47)	(13)	(1,226)	–	(1,286)
Transfer from construction in progress	363	15,846	–	(16,209)	–
Depreciation provided during the year	(5,180)	(2,903)	(3,536)	–	(11,619)
At 31 December 2018, net of accumulated depreciation and impairment	90,713	30,440	14,800	7,214	143,167
At 31 December 2018:					
Cost	115,873	47,586	40,657	7,214	211,330
Accumulated depreciation and impairment	(25,160)	(17,146)	(25,857)	–	(68,163)
Net carrying amount	90,713	30,440	14,800	7,214	143,167

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

31 December 2017

	Buildings and other infrastructure RMB'000	Machinery RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017:					
Cost	75,951	22,530	34,614	14,881	147,976
Accumulated depreciation and impairment	(16,173)	(12,623)	(19,098)	–	(47,894)
Net carrying amount	59,778	9,907	15,516	14,881	100,082
At 1 January 2017, net of accumulated depreciation and impairment	59,778	9,907	15,516	14,881	100,082
Additions	–	427	6,816	64,135	71,378
Acquisition of subsidiaries (note 32)	249	–	504	–	753
Disposals	(736)	(55)	(63)	–	(854)
Transfer from construction in progress	39,537	7,721	109	(47,367)	–
Transferred to investment properties	–	–	–	(9,892)	(9,892)
Depreciation provided during the year	(3,928)	(1,649)	(3,681)	–	(9,258)
At 31 December 2017, net of accumulated depreciation and impairment	94,900	16,351	19,201	21,757	152,209
At 31 December 2017:					
Cost	114,889	30,596	42,252	21,757	209,494
Accumulated depreciation and impairment	(19,989)	(14,245)	(23,051)	–	(57,285)
Net carrying amount	94,900	16,351	19,201	21,757	152,209

At 31 December 2018, certain of the Group's buildings with a net carrying amount of approximately RMB19,102,000 (2017: RMB20,929,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

Certain infrastructure with a net carrying amount as at 31 December 2018 of approximately RMB12,818,000 (2017: RMB13,457,000) is situated on a piece of land which is legally owned and provided for use by the non-controlling shareholder of Jilin Kangda Environmental Protection Company Limited ("Jilin Kangda"), a subsidiary of the Group. The subsidiary is contractually authorised to use the land without charge throughout its operating period.

As the payments for the land lease cannot be separated reliably from the payments for the purchase of office buildings, the entire payments are included in the costs of the relevant buildings.

13. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**211,402**	218,467
Goodwill on acquisition	**10,441**	10,441
	221,843	228,908
Loans to an associate	**85,000**	–

Particulars of the associates are as follows:

Company name	Place of incorporation registration and operation	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Jiangsu Eastern Biological Sludge Treatment Engineering Co., Ltd. ("Eastern Sludge Treatment") (江蘇東方生態清淤工程有限公司)#	PRC/Mainland China	RMB35,000,000	49	Treatment of sludge in rivers and lakes
Zhongyuan Kangda Environmental Protection Co., Ltd. ("Zhongyuan Kangda") (中原康達環保產業有限公司)#	PRC/Mainland China	RMB100,000,000	30	Construction, operation and management of environment protection and infrastructure projects
Fuzhou Fuhe River Investment & Development Co., Ltd. ("Fuzhou Fuhe") (撫州市撫河流域投資開發有限公司)#	PRC/Mainland China	RMB300,000,000	24	Investment, construction, operation and management of municipal projects
Sichuan Kangda Zhonghuan Municipal Engineering Design Co., Ltd. ("Sichuan Zhonghuan") (四川康達中環市政工程設計有限公司)#	PRC/Mainland China	RMB5,000,000	30	Design and consulting of construction projects
Leping Hehu Ecological Environmental Treatment Co., Ltd. ("Leping Hehu") (樂平市河湖生態環境治理有限公司)#	PRC/Mainland China	RMB45,290,000	44	Construction, operation and management of environment protection and infrastructure projects

\# The English names of these companies referred to in this report represent management's best effort at translating the Chinese names of the companies registered in Mainland China, as no English names have been registered.

The percentages of voting power held and profit sharing are the same as the percentages of equity interest attributable to the Group. The Group's shareholdings in the associates comprise equity shares held through a wholly-owned subsidiary of the Company.

13. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information in respect of some investments in associates, which are individually material, reconciled to their carrying amounts in the consolidated financial statements:

	2018		2017	
	Fuzhou Fuhe RMB'000	**Eastern Sludge Treatment RMB'000**	Nanchang Qingshanhu RMB'000	Fuzhou Fuhe RMB'000
Current assets	**609,617**	**98,772**	283,533	94,607
Non-current assets	**673,799**	**22,064**	325,165	207,798
Current liabilities	**(174,816)**	**(77,317)**	(52,080)	(1,420)
Non-current liabilities	**(477,200)**	**–**	(78,436)	–
Net assets	**631,400**	**43,519**	478,182	300,985
Reconciliation to the Group's interests in the associates:				
Proportion of the Group's ownership	**24%**	**49%**	20%	24%
Group's share of net assets of the associates	**151,536**	**21,324**	95,636	72,236
Goodwill on acquisition	**–**	**10,441**	–	–
Carrying amount of the investments	**151,536**	**31,765**	95,636	72,236
Revenue	**–**	**94,157**	162,985	–
Profit for the year	**(322)**	**1,511**	15,982	322
Total comprehensive income from the year	**(322)**	**1,511**	15,982	322
Dividends received	**–**	**–**	7,000	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' (loss)/profit for the year	**(6,258)**	40,457
Share of the associates' total comprehensive income	**(6,258)**	40,457
Aggregate carrying amount of the Group's investments in the associates	**38,542**	61,036

On 30 June 2018, the Group disposed of all of its 20% equity interest in Nanchang Qingshanhu Project Co., Ltd. ("Nanchang Qingshanhu"). The difference between the consideration and the carrying amount of the investment in Nanchang Qingshanhu at the date of disposal, amounting to RMB8,154,000, was charged to profit or loss.

14. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**140,403**	128,572
Loans to joint ventures	**21,895**	–

Particulars of the joint ventures are as follows:

Company name	Place of registration and operation	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Jiangxi Water Investment Kanggan Environmental Protection Industry Group Co., Ltd. ("Jiangxi Kanggan") (江西水投康贛環保產業集團有限公司)#	PRC/Mainland China	RMB100,000,000	49	Treatment and processing of waste water
Zibo Tianqiyuan Water Supply Co., Ltd. ("Tianqiyuan") (淄博市天齊淵供水有限公司)#	PRC/Mainland China	RMB5,190,000	49	Central water supply
Gaomi Kangrui Environmental Protection Technology Co., Ltd. ("Gaomi Kangrui") (高密市康瑞環保科技有限公司)#	PRC/Mainland China	RMB28,000,000	50	Sale and maintenance of environment protection equipment

\# The names of the companies referred to in this report represent management's best effort in translating the Chinese name of the company registered in Mainland China, as no English name has been registered.

The above investments are held through wholly-owned subsidiaries of the Company.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' (loss)/profit for the year	**(2,303)**	2,592
Share of the joint ventures' total comprehensive income	**(2,303)**	2,592
Aggregate carrying amount of the Group's investments in the joint ventures	**140,403**	128,572

15. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	2018 RMB'000	2017 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**489,000**	–
	489,000	–
Available-for-sale financial investments		
Unlisted equity investments, at fair value	**–**	621,000
	–	621,000

During the year, the loss, net of tax, in respect of the Group's equity investments in Zhongyuan Asset recognised in other comprehensive income amounted to RMB112,200,000 (2017: gain in other comprehensive income amounted to RMB99,450,000).

16. SERVICE CONCESSION INTANGIBLE ASSETS

	2018 RMB'000	2017 RMB'000
Cost at 1 January, net of accumulated amortisation	**679,785**	276,616
Additions	**–**	85,255
Acquisition of subsidiaries (note 32)	**98,479**	569,076
Amortisation provided during the year	**(41,090)**	(16,444)
At 31 December	**737,174**	914,503
At 31 December:		
Cost	**795,021**	931,260
Accumulated amortisation	**(57,847)**	(16,757)
Net carrying amount	**737,174**	914,503

As at 31 December 2018, the Group's service concession intangible assets with a carrying value of RMB241,988,000 (2017: RMB329,479,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

17. GOODWILL

	Cash-generating units: Waste water treatment plant	Cash-generating units: Manufacture of chemicals for waste water treatment	Total
	RMB'000	RMB'000	RMB'000
2017			
Cost and carrying amount at 1 January 2017	58,325	1,894	60,219
At 31 December 2017	58,325	1,894	60,219
2018			
Cost and carrying amount at 1 January 2018	**58,325**	**1,894**	**60,219**
At 31 December 2018	**58,325**	**1,894**	**60,219**

Impairment testing of goodwill

Goodwill acquired through business combinations in the amount of approximately RMB60,219,000 as at 31 December 2018 has been allocated to the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units for impairment testing. The recoverable amounts of the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units have been determined based on a value in use calculation using cash flow projections based on a financial budget covering a three-year period approved by the Group. The discount rates applied to the cash flow projections are 12.00% to 16.93% respectively.

Assumptions were used in the value in use calculation of the waste water treatment plant and the manufacture of chemicals for waste water treatment cash-generating units for 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rate used is before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

18. FINANCIAL RECEIVABLES

	2018 RMB'000	2017 RMB'000
Receivables for service concession arrangements	**7,831,580**	9,087,022
Net financial receivables	**7,831,580**	9,087,022
Portion classified as current assets	**(1,400,911)**	(1,410,155)
Non-current portion	**6,430,669**	7,676,867

Receivables for service concession arrangements arose from the service concession contracts to build and operate WTPs or STPs and were recognised to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the Grantor.

Financial receivables were unbilled receivables, and were neither past due nor impaired. Financial receivables were mainly due from governmental authorities in Mainland China, as the Grantors in respect of the Group's service concession arrangements. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2018, the Group's financial receivables with a carrying value of RMB5,157,007,000 (2017: RMB4,982,241,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

19. DEFERRED TAX

The deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the year are as follows:

Deferred tax liabilities	Service concession arrangements RMB'000	Transaction costs for interest-bearing bank and other borrowings and corporate bonds RMB'000	Fair value adjustments of the available-for-sale financial investments/equity investments designated at fair value through other comprehensive income RMB'000	Total RMB'000
At 31 December 2017	(678,486)	(8,597)	(17,550)	(704,633)
Deferred tax liabilities recognised from the acquisition of a subsidiary (note 32)	(15,842)	–	–	(15,842)
Deferred tax liabilities derecognised from the disposal of subsidiaries (note 33)	16,698	–	–	16,698
Deferred tax charged to profit or loss during the year	(72,893)	(3,992)	–	(76,885)
Deferred tax credited to equity during the year	–	–	17,550	17,550
At 31 December 2018	(750,523)	(12,589)	–	763,112

Deferred tax assets	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Impairment of financial and contract assets RMB'000	Losses available for offsetting against future taxable profits RMB'000	Fair value adjustments of the equity investments designated at fair value through other comprehensive income RMB'000	Total RMB'000
At 31 December 2017	276	–	81,376	–	81,652
Effect of adoption of IFRS 9	–	2,184	–	–	2,184
At 1 January 2018 (restated)	276	2,184	81,376	–	83,836
Deferred tax credited to equity during the year	–	–	–	2,250	2,250
Deferred tax credited/(charged) to profit or loss during the year	(16)	–	4,313	–	4,297
At 31 December 2018	260	2,184	85,689	2,250	90,383

19. DEFERRED TAX *(continued)*

31 December 2017

Deferred tax liabilities	Service concession arrangements RMB'000	Transaction costs for interest-bearing bank borrowings and corporate bonds RMB'000	Fair value adjustments of the available-for-sale financial investments RMB'000	Total RMB'000
At 1 January 2017	(457,430)	(8,390)	–	(465,820)
Deferred tax liabilities recognised from the acquisition of subsidiaries (note 32)	(154,843)	–	–	(154,843)
Deferred tax charged to profit or loss during the year	(66,213)	(207)	–	(66,420)
Deferred tax charged to equity during the year	–	–	(17,550)	(17,550)
At 31 December 2017	(678,486)	(8,597)	(17,550)	(704,633)

Deferred tax assets	Fair value adjustments arising from acquisition of subsidiaries RMB'000	BT projects RMB'000	Losses available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2017	291	430	52,994	53,715
Deferred tax credited/(charged) to profit or loss during the year	(15)	(430)	28,382	27,937
At 31 December 2017	276	–	81,376	81,652

The Group also has tax losses arising in Mainland China of RMB 490,303,000 (2017: RMB502,211,000) that will expire in one to five years for offsetting against future taxable profits.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**1,298,421**	1,145,720
Bills receivable	**1,350**	350
Impairment	**(3,772)**	–
	1,295,999	1,146,070

The Group's major customers are the PRC government authorities or agencies. The Group not only provides construction service and operation service pursuant to its service concession arrangements, but also provides construction service under other construction service projects and BT arrangements.

Trade and bills receivables represent the unsettled amounts being billed to the customers in accordance with the terms specified in the contracts governing the relevant transactions. The Group does not have a standardised and universal credit period granted to the construction service customers. The credit period for individual customers of construction service is considered on a case-by-case basis. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's joint ventures and associates of RMB4,890,000 (2017: nil) and RMB380,863,000 (2017: RMB279,250,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group (note 39).

At 31 December 2018, the Group's trade receivables with a carrying value of RMB350,253,000 (2017: RMB205,045,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**330,454**	425,496
4 to 6 months	**226,113**	175,503
7 to 12 months	**173,287**	168,573
Over 12 months	**564,795**	376,148
	1,294,649	1,145,720

20. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2018 **RMB'000**	2017 RMB'000
At beginning of the year	**–**	–
Effect of adoption of IFRS 9	**3,076**	–
At beginning of the year (Restated)	**3,076**	–
Impairment losses	**22,902**	4,341
Amount written off as uncollectible	**(22,206)**	(4,341)
At end of the year	**3,772**	–

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

An ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	822,699
Past due but not impaired:	
Less than 3 months past due	168,411
4 to 6 months past due	45,796
Over 6 months past due	108,814
	1,145,720

Receivables that were neither past due nor impaired related to different local government authorities or agencies for whom there was no recent history of default.

Receivables that were past due but not impaired related to government authorities or agencies that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Loans to third parties	**260,000**	260,000
Loans to an associate and joint ventures	**106,895**	–
Deposits	**61,582**	87,779
Prepayments	**91,611**	73,834
Deductible input VAT	**157,621**	67,507
Staff advances	**8,292**	11,270
Other receivables	**369,692**	325,201
Impairment	**(9,275)**	(1,747)
	1,046,418	823,844
Portion classified as current assets	**(618,563)**	(430,590)
Non-current portion	**427,855**	393,254

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB9,275,000 (2017: RMB1,747,000) with a carrying amount before provision of RMB302,580,000 (2017: RMB17,466,000).

Apart from the described above, the financial assets included in prepayments, other receivables and other assets were neither past due nor impaired and relate to balances for which there was no recent history of default.

22. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from:			
Construction services	**2,491,404**	1,585,991	–
	2,491,404	1,585,991	–

Contract assets are initially recognised for revenue earned from construction services as the receipt of consideration is conditional on successful completion of construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the provision of construction services at the end of the year.

22. CONTRACT ASSETS *(continued)*

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	209,474
More than one year	2,281,930
Total contract assets	2,491,404

At 31 December 2018, the Group's contract assets with a carrying value of RMB1,109,687,000 (2017: nil) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

23. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets are restricted financial assets related to the financing arrangements of interest-bearing bank and other borrowings and corporate bonds of the Group.

24. CONSTRUCTION CONTRACTS

	2018 RMB'000	2017 RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	**–**	967,489
Less: Progress billings	**–**	(887,004)
Gross amount due from contract customers for contract work	**–**	80,485

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**1,155,973**	1,884,488
Less: Pledged deposits	**(179,727)**	(194,855)
Cash and cash equivalents	**976,246**	1,689,633
Cash and bank balances denominated in:		
— RMB	**967,162**	1,617,343
— United States dollars	**5,511**	32,190
— Hong Kong dollars	**3,573**	40,100
Cash and cash equivalents	**976,246**	1,689,633

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents and pledged deposits in the consolidated statement of financial position approximate to their fair values.

At 31 December 2018, the Group's pledged deposits with a carrying value of RMB5,000,000 (2017: RMB23,046,000) were pledged to secure certain interest-bearing bank and other borrowings granted to the Group (note 28).

26. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing. The credit periods granted by each individual supplier are on a case-by-case basis and set out in the supplier contracts.

For retention money payables included in trade payables, in respect of guarantees granted by the suppliers, the due dates usually range from one to two years after the completion of the construction work or the preliminary acceptance of equipment.

	2018	2017
	RMB'000	RMB'000
Bills payable (note (a))	**167,750**	192,319
TOT payables (note (b))	**3,985**	3,985
Trade payables	**1,466,530**	1,094,205
	1,638,265	1,290,509
Less: Non-current portion	**9,396**	2,851
Current portion	**1,628,869**	1,287,658

Notes:

(a) As at 31 December 2018, the Group's bills payable were secured by the pledged deposits amounting to RMB125,119,000 (2017: RMB137,023,000).

(b) TOT payables represented amounts due to the Grantors based on payment schedules set out in the relevant TOT contracts at the end of the year.

26. TRADE AND BILLS PAYABLES *(continued)*

An ageing analysis of the Group's trade and bills payables as at the end of the year is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**564,125**	628,760
4 months to 6 months	**341,914**	218,935
7 months to 12 months	**280,956**	186,239
Over 12 months	**451,270**	256,575
	1,638,265	1,290,509

The carrying amounts of the current portion of the trade and bills payables approximate to their fair values.

27. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Payables for the acquisitions	**277,690**	270,972
Amounts due to non-controlling shareholders (note (a))	**72,554**	49,590
Interest payables	**50,770**	33,277
Contract liabilities (note (b))	**18,059**	–
Other taxes payables	**9,211**	11,418
Salary and welfare payable (note (c))	**10,154**	5,742
Other payables	**68,540**	143,525
	506,968	514,524

Notes:

(a) The amounts mainly represent borrowings provided by the non-controlling shareholders of Huizhou Kangda Yingzhihuang Water Co., Ltd. (惠州康達英之皇水務有限公司) ("Huizhou Kangda"), which is a non-wholly-owned subsidiary of the Group, Jilin Kangda and Hebi Kangda to finance the construction of property, plant and equipment of Huizhou Kangda, Jilin Kangda and Hebi Kangda.

(b) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Construction services	**18,059**	66,341
Total contract liabilities	**18,059**	66,341

(c) The salary and welfare payables are non-interest-bearing and are payable on demand. Other payables are non-interest-bearing and have no fixed terms of repayment.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
— unsecured	–	–	–	3.97–5.66	2018	500,000
Bank loans						
— secured	**4.35–8.00**	**2019**	**1,902,750**	3.86–5.66	2018	1,734,607
Current portion of long term other loans — secured	**5.78–9.90**	**2019**	**137,164**	–	–	–
Current portion of long term bank loans — secured	**4.75–6.56**	**2019**	**971,829**	4.41–6.37	2018	571,220
			3,011,743			2,805,827
Non-current						
Long term other loans						
— unsecured	**1.20**	**2026**	**30,000**	1.20	2026	30,000
Long term other loans						
— secured	**2.80–9.90**	**2020–2026**	**610,862**	2.80	2026	40,000
Long term bank loans						
— secured	**4.75–6.56**	**2020–2045**	**3,443,315**	4.41–6.37	2019–2045	3,519,235
			4,084,177			3,589,235
			7,095,920			6,395,062
Interest-bearing bank and other borrowings denominated in						
— RMB			**7,021,117**			6,172,957
— Hong Kong dollars			**43,810**			104,489
— United States dollars			**30,993**			117,616
			7,095,920			6,395,062

	2018 RMB'000	2017 RMB'000
Analysed into:		
Interest-bearing bank and other borrowings repayable:		
Within one year	**3,011,743**	2,805,827
In the second year	**864,717**	790,966
In the third to fifth years, inclusive	**1,801,130**	1,520,220
Beyond five years	**1,418,330**	1,278,049
	7,095,920	6,395,062

28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

The above secured interest-bearing bank and other borrowings are secured by certain assets with carrying values as follows:

	2018	2017
	RMB'000	RMB'000
Property, plant and equipment (note 12)	**19,102**	20,929
Financial receivables (note 18)	**5,157,007**	4,982,241
Trade and bills receivables (note 20)	**350,253**	205,045
Pledged deposits (note 25)	**5,000**	23,046
Service concession intangible assets (note 16)	**241,988**	329,479
Contract assets (note 22)	**1,109,687**	–

The Group's interest-bearing bank and other borrowings of RMB1,850,369,000 (2017: RMB515,515,000) were guaranteed by the Company's investments in certain subsidiaries.

The Group's interest-bearing bank and other borrowings of RMB1,364,477,000 (2017: RMB250,000,000) were secured by Mr. Zhao Juanxian, who is the controlling shareholder of the Company (note 39).

29. CORPORATE BONDS

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 19 April 2018 pursuant to the subscription agreement dated 11 April 2018, which is due on 15 January 2019 and bears interest at the rate of 6.5% per annum.

A corporate bond with a principal amount of RMB300,000,000 was issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, to certain institutional investors on 3 September 2018 pursuant to the subscription agreement dated 27 August 2018, which is due on 2 June 2019 and bears interest at the rate of 7.0% per annum.

As at 31 December 2018, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, on 13 June 2018 was RMB294,385,000, with a maturity date on 13 June 2021 and an interest rate at 7.5% per annum.

As at 31 December 2018, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, on 18 December 2015 was RMB881,981,000, with a maturity date on 18 December 2022 and an interest rate at 7.0% per annum (raised from 5.5%).

As at 31 December 2018, the carrying amount of the bond issued by Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, on 30 June 2016 was RMB59,890,000, with a maturity date on 1 July 2019 and an interest at the rate of 5.8% per annum.

29. CORPORATE BONDS *(continued)*

On 10 August 2018, the Group received a net cash amount of RMB319,000,000 through the issuance of asset-backed securities (the "ABS") of RMB360,000,000 in the Shanghai Stock Exchange bearing interest at the rate of 7.5% per annum. As at 31 December 2018, the carrying amount of the ABS was RMB304,243,000. The Group invested RMB30,000,000 in such ABS as a deferred ABS holder and RMB11,000,000 as a preferred ABS holder.

	2018 **RMB'000**	2017 RMB'000
Unsecured short term corporate bonds	**671,394**	1,100,000
Unsecured long term corporate bonds	**1,469,105**	948,841
	2,140,499	2,048,841

30. SHARE CAPITAL

Shares

	2018 **RMB'000**	2017 RMB'000
Authorised: 5,000,000,000 (2017: 5,000,000,000) ordinary shares of HK$0.01 each	**39,766**	39,766
Issued and fully paid: 2,032,385,000 (2017: 2,061,365,000) ordinary shares of HK$0.01 each	**16,143**	16,392

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Issued capital** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At 1 January 2018	2,061,365,000	16,392	1,715,535	1,731,927
Share repurchased	(28,980,000)	(249)	(30,752)	(31,001)
Final 2017 dividends declared	–	–	(41,122)	(41,122)
At 31 December 2018	2,032,385,000	16,143	1,643,661	1,659,804

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 71 and page 72 of the consolidated financial statements.

32. BUSINESS COMBINATION

On 1 January 2018, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, acquired a 100% interest in Sichuan Weiyuan Hefeng Bioengineering Co., Ltd. (四川威遠禾豐生物工程有限公司) ("Weiyuan Hefeng") at a total consideration of approximately RMB100,265,000, of which RMB4,850,000 and RMB34,593,000 have been paid during the years ended 31 December 2017 and 31 December 2018, respectively. RMB60,822,000 remained unsettled on 31 December 2018.

The above acquisition was made as part of the Group's strategy to expand its market geographic coverage in the waste water treatment industry or reclaimed waste water treatment industry and increase the operating efficiency of WTPs or RWTPs.

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the year as at the date of acquisition were as follows:

	Notes	**Weiyuan Hefeng** RMB'000
Cash and cash equivalents		1,644
Trade and bills receivables		6,203
Prepayments, other receivables and other assets		19,705
Inventories		90
Property, plant and equipment	12	14
Service concession intangible assets	16	98,479
Trade and bills payables		(1,553)
Other payables and accruals		(1,748)
Tax payable		(327)
Current portion of interest-bearing bank and other borrowings		(933)
Non-current portion of interest-bearing bank and other borrowings		(5,467)
Deferred tax liabilities	19	(15,842)
Total identifiable net assets at fair value		100,265
Satisfied by cash		100,265

None of the trade and bills receivables has been impaired and it is expected that the full contractual amounts can be collected.

The transaction costs related to the acquisition have been expensed and are included in administrative expenses in profit or loss.

32. BUSINESS COMBINATION *(continued)*

	Weiyuan Hefeng RMB'000
An analysis of the cash flows in respect of the acquisition is as follows:	
Cash consideration paid during the year	(34,593)
Cash and cash equivalents acquired	1,644
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(32,949)
Transaction costs of the acquisition included in cash flows from operating activities	–

Since the acquisition, Weiyuan Hefeng contributed approximately RMB12,355,000 to the Group's revenue and approximately RMB2,276,000 to the Group's profit for the year ended 31 December 2018.

During the year, the Group also settled certain outstanding considerations amounting to RMB56,806,000 by cash in relation to the business combinations for the year ended 31 December 2017.

33. DISPOSAL OF SUBSIDIARIES

On 18 August 2018, Chongqing Kangda, an indirectly wholly-owned subsidiary of the Company, disposed of all of its 99% interest in Yanggu Guohuan, 99% interest in Liaocheng Guohuan, 100% interest in Ningguo Chengjian, and 100% interest in Chaohu Huashan to Jinfeng Environmental Protection Co., Ltd. for a total consideration of approximately RMB294,165,000, of which RMB253,289,000 have been received during the year ended 31 December 2018 and RMB40,876,000 remained unsettled at 31 December 2018.

33. DISPOSAL OF SUBSIDIARIES *(continued)*

	Notes	2018 RMB'000
Property, plant and equipment	12	1,286
Inventories		479
Financial receivables		395,200
Trade and bills receivables		33,087
Prepayments, other receivables and other assets		14,415
Cash and cash equivalents		3,707
Trade and bills payables		(48,625)
Other payables and accruals		(108,868)
Tax payable		(879)
Deferred tax liabilities	19	(16,698)
		273,104
Group's share of net assets of disposed subsidiaries		270,973
Gain on disposal		23,192
		294,165
Satisfied by:		
Cash		294,165
Cash consideration received		253,289
Cash and bank balances disposed of		(3,707)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		249,582

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	**Corporate bonds RMB'000**	**Interest payable RMB'000**	**Dividend payable RMB'000**
At 1 January 2018	**6,395,062**	**2,048,841**	**33,277**	**3,171**
Changes from financing cash flows	**681,947**	**108,003**	**(477,854)**	**(43,115)**
Foreign exchange movement	**12,511**	**–**	**–**	**–**
Amortised cost	**–**	**(16,345)**	**–**	**–**
Interest expense	**–**	**–**	**498,570**	**–**
Final dividend declared to owners	**–**	**–**	**–**	**41,122**
Increase arising from acquisition of a subsidiary	**6,400**	**–**	**–**	**–**
At 31 December 2018	**7,095,920**	**2,140,499**	**53,993**	**1,178**

	Interest-bearing bank and other borrowings RMB'000	Corporate bonds RMB'000	Interest payable RMB'000	Dividend payable RMB'000
At 1 January 2017	4,521,009	1,246,825	9,898	3,170
Changes from financing cash flows	1,840,360	800,000	(331,501)	(37,876)
Foreign exchange movement	(11,307)	–	–	–
Amortised cost	–	2,016	–	–
Interest expense	–	–	354,880	–
Final dividend declared to owners	–	–	–	37,877
Increase arising from acquisition of subsidiaries	45,000	–	–	–
At 31 December 2017	6,395,062	2,048,841	33,277	3,171

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with terms ranging from one to ten years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**1,260**	1,175
In the second to fifth years, inclusive	**983**	2,243
	2,243	3,418

(b) As lessee

The Group leases certain office properties and a land property under operating lease arrangements with leases negotiated for terms ranging from 1 to 21 years (2017: 1 to 22 years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**6,664**	5,427
In the second to fifth years, inclusive	**5,720**	6,793
Over five years	**1,844**	1,962
	14,228	14,182

36. CONTINGENT LIABILITIES

At the end of the year, the Group did not have any significant contingent liabilities.

37. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in note 28 to the consolidated financial statements.

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following commitments:

(a) Capital commitments

The Group had the following capital commitments at the end of the year:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for	**303,306**	413,574

(b) The Group had the following commitments with respect to service concession arrangements at the end of the year:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for	**3,218,966**	2,761,838

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2018 **RMB'000**	2017 RMB'000
Certain expenses of the Group paid by non-controlling shareholders of:		
Huizhou Kangda	**37,402**	9,921
Five Guohuan subsidiaries* (i)	**–**	743
Pingdingshan City Bay	**–**	316
Acquisition considerations paid by the Group to non-controlling shareholders of:		
Shandong Fengmin	**–**	21,700
Xinzheng Xinkang	**–**	17,600
Weifang Shuangjie	**–**	1,796
Qitaihe	**5,000**	1,479
Five Guohuan Subsidiaries* (i)	**2,385**	–
Qishan	**3,081**	–
Certain expenses paid by the Group for non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	**1,309**	11,917
Five Guohuan Subsidiaries* (i)	**29**	1,463
Weihai Kangda	**–**	204
Jiaoling Kangda	**506**	–
Loans to an associate and joint ventures:		
Zhongyuan Kangda	**85,000**	–
Gaomi Kangrui* (ii)	**15,892**	–
Jiangxi Kanggan	**6,003**	–
Services provided to associates and joint ventures:		
Zhongyuan Kangda	**143,017**	165,169
Leping Hehu	**–**	114,081
Fuzhou Fuhe	**48,690**	46,054
Gaomi Kangrui* (ii)	**157**	–
Jiangxi Kanggan	**8,515**	10,345
Services provided by associates:		
Eastern Sludge Treatment	**17**	102,252
Sichuan Zhonghuan	**–**	9,505
Services provided by a non-controlling shareholder of:		
Jiaoling Kangda	**1,149**	–

39. RELATED PARTY TRANSACTIONS *(continued)*

(a) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year: *(continued)*

* (i) Dong'e County Guohuan Sewage Treatment Co., Ltd. (東阿縣國環污水處理有限公司), Liaocheng Jiaming Guohuan Sewage Treatment Co., Ltd. (聊城嘉明國環污水處理有限公司), Linqing City Guohuan Sewage Treatment Co., Ltd. (臨清市國環污水處理有限公司), Jining Guohuan Sewage Treatment Co., Ltd. (濟寧市國環污水處理有限公司), and Shen County Guohuan Sewage Treatment Co., Ltd. (莘縣國環污水處理有限公司) are collectively known as "Five Guohuan subsidiaries".

(ii) The Group acquired a 50% interest in Gaomi Kangrui Environmental Protection Technology Co., Ltd. ("Gaomi Kangrui") in August 2018.

The Group is contractually authorised to use a piece of land which is legally owned by the non-controlling shareholder of Jilin Kangda without charge, and such use also constitutes a related party transaction during the year. Meanwhile, the Group is also authorised to use certain infrastructure without charge which is legally owned and provided by the non-controlling shareholder of Xinzhongzhou Water.

The Group's interest-bearing bank and other borrowings in 2018 amounting to RMB1,364,477,000 (2017: RMB250,000,000) were secured by Mr. Zhao Juanxian, who is the controlling shareholder (note 28).

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

(b) **Outstanding balances with related parties**

	2018 **RMB'000**	2017 RMB'000
Amounts due to non-controlling shareholders of:		
Five Guohuan subsidiaries	**59,406**	65,182
Pingdingshan City Bay	**55,391**	55,391
Qitaihe	**11,645**	18,575
Hebi Kangda	**12,000**	12,000
Jilin Kangda	**11,000**	11,000
Huizhou Kangda	**47,323**	9,921
Qishan	**–**	5,119
Xinzhongzhou Water and Xinzheng Xinkang	**2,510**	2,510
Jiaoling Kangda	**690**	–
Amounts due to associates:		
Eastern Sludge Treatment	**54,834**	72,252
Sichuan Zhonghuan	**–**	5,930
Nanchang Qingshanhu	**–**	5,000

39. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties *(continued)*

	2018 RMB'000	2017 RMB'000
Amounts due from non-controlling shareholders of:		
Xinzhongzhou Water and Xinzheng Xinkang	**16,094**	14,785
Pingdingshan City Bay	**10,649**	10,649
Five Guohuan subsidiaries	**1,418**	3,192
Hebi Kangda	**2,950**	2,950
Weihai Kangda	**43**	204
Jiaoling Kangda	**506**	–
Amounts due from associates:		
Zhongyuan Kangda	**380,953**	165,169
Leping Hehu	**84,966**	114,081
Amounts due from joint ventures:		
Tianqiyuan	**22,575**	22,575
Jiangxi Kanggan	**10,892**	–
Gaomi Kangrui	**16,049**	–

(c) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**1,971**	1,916
Equity-settled share option expenses	**–**	84
Total compensation paid to key management personnel	**1,971**	2,000

Further details of directors' emoluments are included in note 8 to the consolidated financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2018

Financial assets

	Financial assets at fair value through other comprehensive income Equity investments	Financial assets at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Equity investments designated at fair value through other comprehensive income	489,000	–	489,000
Financial receivables	–	7,831,580	7,831,580
Trade and bills receivables	–	1,295,999	1,295,999
Financial assets included in prepayments, other receivables and other assets	–	779,460	779,460
Pledged deposits	–	179,727	179,727
Cash and cash equivalents	–	976,246	976,246
Other non-current financial assets	–	793,030	793,030
	489,000	11,856,042	12,345,042

Financial liabilities

	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*
Trade and bills payables	1,638,265	1,638,265
Financial liabilities included in other payables and accruals	478,755	478,755
Interest-bearing bank and other borrowings	7,095,920	7,095,920
Corporate bonds	2,140,499	2,140,499
	11,353,439	11,353,439

40. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

31 December 2017

Financial assets

	Available-for-sale financial investments *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Available-for-sale financial investments	621,000	–	621,000
Financial receivables	–	9,087,022	9,087,022
Trade and bills receivables	–	1,146,070	1,146,070
Financial assets included in prepayments, other receivables and other assets	–	556,011	556,011
Pledged deposits	–	194,855	194,855
Cash and cash equivalents	–	1,689,633	1,689,633
	621,000	12,673,591	13,294,591

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	1,290,509	1,290,509
Financial liabilities included in other payables and accruals	442,441	442,441
Interest-bearing bank and other borrowings	6,395,062	6,395,062
Corporate bonds	2,048,841	2,048,841
	10,176,853	10,176,853

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Financial assets				
Available-for-sale financial investments	**–**	621,000	**–**	621,000
Equity investments designated at fair value through other comprehensive income	**489,000**	–	**489,000**	–
Prepayments, other receivables and other assets, non-current portion	**298,564**	265,200	**304,166**	277,759
Financial receivables, non-current portion	**6,430,669**	7,676,867	**6,647,255**	7,824,974
Other non-current financial assets	**793,030**	–	**793,878**	–
	8,011,263	8,563,067	**8,234,299**	8,723,733
Financial liabilities				
Trade and bills payables, non-current portion	**9,396**	2,851	**8,957**	2,718
Interest-bearing bank and other borrowings, non-current portion	**4,084,177**	3,589,235	**4,162,606**	3,612,408
Non-current corporate bonds	**1,469,105**	2,048,841	**1,469,105**	2,048,841
	5,562,678	5,640,927	**5,640,668**	5,663,967

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, the current portion of financial receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, other receivables and other assets, the current portion of financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The finance manager reports directly to the chief financial officer. At the end of the year, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial receivables, contract assets, prepayments, other receivables and other assets, trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for trade and bills payables, interest-bearing bank and other borrowings, and corporate bonds as at the end of the year were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Equity investments designated at fair value through other comprehensive income	**–**	**489,000**	**–**	**489,000**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale financial investments	–	621,000	–	621,000

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Assets for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Prepayments, other receivables and other assets, non-current portion	**–**	**304,166**	**–**	**304,166**
Financial receivables, non-current portion	**–**	**6,647,255**	**–**	**6,647,255**
Other non-current financial assets	**–**	**793,878**	**–**	**793,878**
	–	**7,745,299**	**–**	**7,745,299**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Prepayments, other receivables and other assets, non-current portion	–	277,759	–	277,759
Financial receivables, non-current portion	–	7,824,974	–	7,824,974
	–	8,102,733	–	8,102,733

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy *(continued)*

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills payables, non-current portion	–	8,957	–	8,957
Interest-bearing bank and other borrowings, non-current portion	–	4,162,606	–	4,162,606
Non-current corporate bonds	–	1,469,105	–	1,469,105
	–	5,640,668	–	5,640,668

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills payables, non-current portion	–	2,718	–	2,718
Interest-bearing bank and other borrowings, non-current portion	–	3,612,408	–	3,612,408
Corporate bonds	–	2,048,841	–	2,048,841
	–	5,663,967	–	5,663,967

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, corporate bonds, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial receivables, trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing these risks and they are summarised below.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank and other borrowings, corporate bonds, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

If there would be a general increase/decrease in the market interest rates by one percentage point, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB53,028,497 and RMB52,066,722 for the years ended 31 December 2018 and 2017 respectively, and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of the year and had applied the exposure to interest rate risk to those financial instruments in existence at that date.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables and financial assets included in prepayments, other receivables and other assets represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the credit exposure to each financial institution to an acceptable level.

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As the Group's major customers are either PRC government authorities or agencies at the provincial and local levels or other state-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. The senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

(c) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

	31 December 2018				
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	3,280,492	1,072,602	2,222,554	1,464,832	8,040,480
Corporate bonds	828,355	1,023,175	428,325	286,969	2,566,824
Trade and bills payables	1,628,869	9,396	–	–	1,638,265
Financial liabilities included in other payables and accruals	478,755	–	–	–	478,755
	6,216,471	2,105,173	2,650,879	1,751,801	12,724,324

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Liquidity risk *(continued)*

	31 December 2017				
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	3,061,087	963,474	1,837,339	1,337,222	7,199,122
Corporate bonds	1,219,080	112,980	1,048,500	–	2,380,560
Trade and bills payables	1,287,658	2,851	–	–	1,290,509
Financial liabilities included in other payables and accruals	442,441	–	–	–	442,441
	6,010,266	1,079,305	2,885,839	1,337,222	11,312,632

(d) Capital management

The Group's primary objectives for managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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 debts. No change was made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, corporate bonds less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent and non-controlling interests as stated in the consolidated statement of financial position.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(d) Capital management *(continued)*

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary. The gearing ratios at the end of the years were as follows:

	2018 RMB'000	2017 RMB'000
Trade and bills payables (note 26)	**1,638,265**	1,290,509
Other payables and accruals (note 27)	**506,968**	514,524
Interest-bearing bank and other borrowings (note 28)	**7,095,920**	6,395,062
Corporate bonds (note 29)	**2,140,499**	2,048,841
Less: Cash and cash equivalents (note 25)	**(976,246)**	(1,689,633)
Less: Pledged deposits (note 25)	**(179,727)**	(194,855)
Net debt	**10,225,679**	8,364,448
Total equity	**4,321,673**	4,206,861
Capital and net debt	**14,547,352**	12,571,309
Gearing ratio	**70%**	67%

43. EVENT AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2018.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,212,032**	1,212,032
Total non-current assets	**1,212,032**	1,212,032
CURRENT ASSETS		
Prepayments, other receivables and other assets	**724,959**	544,167
Cash and cash equivalents	**679**	7,179
Total current assets	**725,638**	551,346
CURRENT LIABILITIES		
Other payables and accruals	**212,764**	8,080
Total current liabilities	**212,764**	8,080
NET CURRENT ASSETS	**512,874**	543,266
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,724,906**	1,755,298
Net assets	**1,724,906**	1,755,298
EQUITY		
Issued capital	**16,143**	16,392
Reserves	**1,708,763**	1,738,906
Total equity	**1,724,906**	1,755,298

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	1,758,407	49,280	53,650	1,861,337
Final 2016 dividends declared	(33,080)	–	–	(33,080)
Shares repurchased	(9,792)	–	–	(9,792)
Total comprehensive income for the year	–	–	(86,674)	(86,674)
Equity-settled share option expense	–	7,115	–	7,115
At 31 December 2017	1,715,535	56,395	(33,024)	1,738,906
Final 2017 dividends declared	**(41,122)**	**–**	**–**	**(41,122)**
Shares repurchased	**(30,752)**	**–**	**–**	**(30,752)**
Total comprehensive income for the year	**–**	**–**	**41,731**	**41,731**
At 31 December 2018	**1,643,661**	**56,395**	**8,707**	**1,708,763**

45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years is as set below:

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,021,327**	2,523,940	1,926,502	1,836,478	1,812,781
Profit before tax	**455,691**	536,796	437,392	443,147	381,716
Income tax	**145,801**	109,187	91,400	108,500	85,241
Profit for the year	**309,890**	427,609	345,992	334,647	296,475
Other comprehensive income	**(112,200)**	99,450	14,395	–	–
Total comprehensive income for the year	**197,690**	527,059	360,387	334,647	296,475
PROFIT ATTRIBUTABLE TO:					
Shareholders of the Company	**303,350**	414,448	334,577	324,883	294,788
Non-controlling interests	**6,540**	13,161	11,415	9,764	1,687
	309,890	427,609	345,992	334,647	296,475
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Shareholders of the Company	**191,150**	513,898	348,972	324,883	294,788
Non-controlling interests	**6,540**	13,161	11,415	9,764	1,687
	197,690	527,059	360,387	334,647	296,475

ASSETS, LIABILITIES AND TOTAL EQUITY

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**16,525,227**	15,235,594	11,160,451	9,465,810	7,610,810
Total liabilities	**12,203,554**	11,028,733	7,467,284	6,135,127	4,686,095
NET ASSETS	**4,321,673**	4,206,861	3,693,167	3,330,683	2,924,715
Equity attributable to shareholders of the Company	**4,114,653**	4,003,314	3,546,985	3,200,028	2,842,913
Non-controlling interests	**207,020**	203,547	146,182	130,655	81,802
TOTAL EQUITY	**4,321,673**	4,206,861	3,693,167	3,330,683	2,924,715