瀘州市興瀘水務（集團）股份有限公司

LUZHOU XINGLU WATER (GROUP) CO., LTD.*

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

Stock Code: 2281

2018

ANNUAL REPORT

* For identification purposes only

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CHAPTER I CORPORATE INFORMATION

BOARD OF DIRECTORS:

Executive Directors:

Mr. Zhang Qi (張歧先生) *(Chairman of the Board)*
Mr. Liao Xingyue (廖星樾先生)
Mr. Wang Junhua (王君華先生)

Non-executive Directors:

Mr. Chen Bing (陳兵先生)
Ms. Xu Yan (徐燕女士)
Mr. Xie Xin (謝欣先生)

Independent Non-executive Directors:

Mr. Gu Ming'an (辜明安先生)
Mr. Lin Bing (林兵先生)
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)

STRATEGY COMMITTEE:

Mr. Chen Bing (陳兵先生) *(Chairman)*
Mr. Zhang Qi (張歧先生)
Mr. Lin Bing (林兵先生)

AUDIT COMMITTEE:

Mr. Cheng Hok Kai, Frederick (鄭學啟先生) *(Chairman)*
Mr. Gu Ming'an (辜明安先生)
Mr. Xie Xin (謝欣先生)

NOMINATION AND REMUNERATION COMMITTEE:

Mr. Gu Ming'an (辜明安先生) *(Chairman)*
Mr. Cheng Hok Kai, Frederick (鄭學啟先生)
Mr. Zhang Qi (張歧先生)

SECRETARY TO THE BOARD:

Mr. Chen Yongzhong (陳永忠先生)

JOINT COMPANY SECRETARIES:

Mr. Chen Yongzhong (陳永忠先生)
Ms. Ng Wing Shan (吳詠珊女士)

AUTHORISED REPRESENTATIVES:

Mr. Zhang Qi (張歧先生)
Mr. Chen Yongzhong (陳永忠先生)

REGISTERED ADDRESS, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC:

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Jiangyang District, Luzhou
Sichuan Province, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

DOMESTIC SHARE REGISTRAR:

China Securities Depository and Clearing Corporation Limited
No. 17, Taipingqiao Avenue
Xicheng District, Beijing, the PRC

H SHARE REGISTRAR:

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

LEGAL ADVISER:

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:
Jia Yuan Law Offices
F408, Level 4, Ocean Plaza
158 Fuxing Men Nei Avenue
Xicheng District
Beijing, the PRC

COMPLIANCE ADVISER:

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKERS:

Industrial and Commercial Bank of China
Luzhou City Commercial Bank
Bank of Communications Co., Ltd.

INTERNATIONAL AUDITOR:

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

STOCK CODE:

2281

COMPANY WEBSITE:

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CHAPTER II DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

"Annual General Meeting"	the annual general meeting to be convened by the Company on 14 June 2019, or any adjournment thereof
"Articles of Association"	the articles of association of the Company, as amended, supplemented or otherwise modified from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijiao Water"	Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.* (瀘州市興瀘水務(集團)北郊水業有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in tap water production business
"Beijing Enterprises Water Group"	Beijing Enterprises Water Group Limited* (北控水務集團有限公司), one of our Shareholders, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 371)
"Board"	the board of Directors of the Company
"Company" or "Group" or "us" or "we"	Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), converted by Xinglu Water Company Limited (a limited liability company established on 31 July 2002) on 25 December 2015, which includes its predecessor and subsidiaries as required by the context
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in RMB
"Fanxing Company"	Luzhou Fanxing Environmental Protection and Development Co., Ltd.* (瀘州市繁星環保發展有限公司)

"H Share(s)"	the ordinary share(s) in issue in the share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange
"Hejiang Water"	Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.* (瀘州市興瀘水務(集團)合江水業有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in tap water production and sale
"HK$"	the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRSs"	International Financial Reporting Standards issued by the International Accounting Standards Board
"IPO"	the initial public offering of the Company's H Shares on the Main Board of the Hong Kong Stock Exchange on 31 March 2017
"Jiangnan Water"	Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.* (瀘州市興瀘水務集團江南水業有限公司), a wholly-owned subsidiary of the Company, mainly engaged in tap water production and sale
"Leshan Company"	Leshan Xinglu Water Xingjia Environmental Protection Technology Co., Ltd.* (樂山市興瀘水務興嘉環保科技有限公司)
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Luzhou Laojiao"	Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), one of our Shareholders
"Luzhou Infrastructure"	Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), one of our Shareholders
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules

"Nanjiao Water"	Luzhou Nanjiao Water Co., Ltd.* (瀘州市南郊水業有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in tap water production business
"Naxi Water"	Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.* (瀘州市興瀘水務(集團)納溪水業有限公司), a wholly-owned subsidiary of the Company, mainly engaged in tap water production and sale
"PRC" or "China"	the People's Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus dated 21 March 2017 in relation to the IPO
"Reporting Period"	For the year ended 31 December 2018
"RMB" or "Yuan"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of RMB1.00 each in the share capital of the Company, including H Shares and Domestic Shares
"Shareholder(s)"	the holder(s) of the Share(s)
"Sitong Design"	Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.* (瀘州市四通給排水設計有限公司), a non-wholly-owned subsidiary of the Company, mainly engaged in the provision of water supply and drainage design service
"Sitong Engineering"	Luzhou Sitong Tap Water Engineering Co., Ltd.* (瀘州市四通自來水工程有限公司), a wholly-owned subsidiary of the Company, mainly engaged in the Provision of engineering construction service
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company

"Weiyuan Qingxi Water"	Luzhou Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd. (興瀘水務(集團)威遠清溪水務有限公司), a non-wholly-owned subsidiary of the Company, mainly engaged in the provision of water supply service
"Weiyuan Installation Company"	Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.* (威遠城市供排水安裝工程有限公司), a non-wholly-owned subsidiary, mainly engaged in the provision of engineering construction service
"Xinglu Investment"	Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), our Controlling Shareholder
"Xinglu Wastewater Treatment"	Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a non-wholly owned subsidiary of the Company, mainly engaged in wastewater treatment business
"Xingxu Water"	Luzhou Xinglu Water (Group) Xingxu Water Co., Ltd. (瀘州市興瀘水務(集團)興敘水業有限公司), a non-wholly-owned subsidiary of the Company, mainly engaged in the provision of water supply service
"%"	per cent

* *For the identification purpose only*

Bring Ecology Back, Bring Life Forward

Zhang Qi
Chairman of the Board

I hereby present the annual report of the Group for the year ended 31 December 2018 on behalf of the Board.

2018 was an important year for the national campaign to promote ecological progress and also a year of breakthroughs in the Company's implementation of its development strategy. The Company adhered to the core values of "innovation, excellence and human-water harmony". Under the leadership of the Board and with the support of all Shareholders, the staff of the Company made concerted efforts to overcome all difficulties. The Company further optimized its strategic objectives, expanded its business into new markets and broadened its financing channels while keeping a close eye on national environmental policy and industry trends. As a result, the Company maintained sustained and steady business growth and made major breakthroughs in cross-regional business development.

BUSINESS REVIEW

During the Reporting Period, the Company recorded a total revenue of approximately RMB1,218.2 million, representing an increase of approximately 12.6% as compared to the year ended 31 December 2017; total profits of approximately RMB167.2 million for the year, representing an increase of approximately 17.2% as compared to the year ended 31 December 2017; basic earnings per share was RMB0.18, increased by approximately 12.5% as compared to the year ended 31 December 2017. The Board resolved to recommend the distribution of final dividends of RMB0.06 per share (tax inclusive) to the Shareholders for their long-term support for the Company.

BUSINESS EXPANSION

The Company made a breakthrough in expanding its water supply and drainage business outside the region. In September 2018, the Company successfully acquired 60% equity interest in Weiyuan Qingxi Water and Weiyuan Installation Company, respectively. In November 2018, the Company successfully entered into agreement in respect of wastewater treatment facilities and wastewater collection pipeline networks construction PPP (public-private-partnership) project in Shizhong District, Leshan City. The successful implementation of such projects will further solidify the foundation for the growth in the Company's revenue and profit.

The water user base in the region grew steadily. In line with the country's drive to deepen reform and implement the rural revitalization strategy, the Company made a vigorous push for projects such as "service sector moving (三産移産)", "centralized construction and management of secondary water supply facilities" and "Jiangyang District-wide water supply project", which increased its water users by 57,900.

During the Reporting Period, the Company explored industrial chain extension, tried to treat black and odorous water bodies and implemented the Yudai River water body treatment project, completed the sludge reduction project, which produced results after being put into operation, steadily improved the efficiency of energy conservation and emission reduction, continued to develop chemical industry, liquor industry and other industrial wastewater markets in the region, and launched a distillery wastewater treatment project.

PROJECT CONSTRUCTION

Through scientific management, the Company made solid progress in project construction. The Company actively implemented projects such as Naxi Water Plant, Huangxi Water Plant and Erdaoxi Sewage Treatment Plant upgrading and capacity expansion. At the end of the Reporting Period, the daily water supply capacity of the Company reached 498,500 tons, representing an increase of 17.2% as compared to the end of the previous year; the daily wastewater treatment capacity reached 301,000 tons, representing an increase of 15.3% as compared to the end of the previous year. This consolidated the foundation for the development of the Company's main business.

FINANCING SUPPORT

Boosting the Company's development through innovative financing methods. In 2018, the Company launched the issuance of no more than RMB700 million of corporate bonds, actively implemented a financial leasing arrangement and optimized the financing structure to provide long-term and robust funding support for the Company's development.

CORPORATE GOVERNANCE

Strengthening management and implementation of internal control efficiency. The Company optimized the production process, integrated production factors, established a standardized production management mode and supervision system; vigorously implemented the strategy of strengthening the enterprise by talents, established a dual-channel mechanism for talent development; sorted out and improved the Company's risk management and control system, reinforced various risk prevention strategies and measures. With "win-win, consensus, joint development, sharing, resonance" as its business philosophy, the Company did a good job of communication to create a good business environment.

Innovative management and implementation of smart water services. By leveraging technology, the Company actively promoted unattended management by district metered areas (DMAs) to improve the Company's management. Valuing the research and development of technology, the Company tested the ARES process and diatomite technology for wastewater treatment, and strived to reduce costs and improve efficiency.

FUTURE PROSPECT

In 2019, we will closely follow national strategies for pollution prevention and control, ecological construction, rural revitalization, rural water security strategy, position our development around "keeping a foothold in the main business of water supply and drainage, extending the industry chain business, expanding the environmental protection business, and building core technologies", focus on expansion externally and strengthen management internally, actively explore new areas of rural wastewater treatment, achieve the in-depth and sound development of cross-regional business, integrate resources to extend the Company's industry chain, expand work on the treatment of black and odorous water bodies and water environment treatment, and continue research and development for environmental protection technologies in areas such as smart water services and water environment treatment, so as to promote the high-speed and high-quality development of the Company and deliver substantial returns to Shareholders.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to all the Shareholders and partners for their continuous trust and support for the development of the Company, and to thank all the colleagues of the Company for their hard work and contributions.

Zhang Qi
Chairman of the Board
Luzhou, the PRC
28 March 2019

CHAPTER IV FINANCIAL HIGHLIGHTS

As a listed company of integrated water supply and drainage, the Company has both the goals of profitability and public welfare. For the profitability, growth and the Company's management ability of the operations cared by the investors, we focus on selecting indicators related to profitability in the financial review such as revenue, cost, expenses, gross profit and gross profit margin, profit after tax and profit margin, etc., in order to analyze the Company's profitability and future trends so that the investors can better understand the Company's profitability and growth. We have chosen to make analysis and explanation of major assets, major current accounts and operational management capability indicators such as inventory turnover days and accounts receivable turnover days, so that investors and stakeholders can better understand the Company's financial position and management's operation management capabilities. Please see the analysis below for more details:

4.1 CONSOLIDATED RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,218,206**	1,081,744	836,191	911,896	628,983
Profit before tax	**186,630**	163,169	165,812	170,352	136,719
Income tax expense	**(19,388)**	(20,480)	(25,016)	(25,934)	(21,187)
Profit for the year	**167,242**	142,689	140,796	144,418	115,532
Profit and total comprehensive income for the year attributable to:					
– Owners of the Company	**153,451**	131,298	126,647	130,412	100,386
– Non-controlling interests	**13,177**	11,391	14,149	14,006	15,146
	166,628	142,689	140,796	144,418	115,532
Return on average equity(Note)	**8.7%**	8.8%	11.4%	16.5%	20.4%
Basic earnings per share *(RMB)*	**0.18**	0.16	0.20	0.22	0.25

Note: Return on average equity equals profit for the year divided by the average balance of total equity at the beginning and end of the period and multiplied by 100%.

4.2 CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**3,811,837**	3,264,816	2,659,137	2,059,228	1,433,324
Total liabilities	**(1,854,926)**	(1,386,900)	(1,287,864)	(963,971)	(777,339)
Total equity	**1,956,911**	1,877,916	1,371,273	1,095,257	655,985
Equity attributable to owners of the Company	**1,880,035**	1,786,240	1,289,784	1,031,381	606,808
Non-controlling interests	**76,876**	91,676	81,489	63,876	49,177
	1,956,911	1,877,916	1,371,273	1,095,257	655,985

CHAPTER V MANAGEMENT DISCUSSION AND ANALYSIS

5.1 INDUSTRY OVERVIEW

The 19th National Congress clearly proposed the strategic development plan of "acceleration of reform of ecological civilization for building a beautiful China", which led the development of environmental protection and water treatment industry to enter into new opportunity stage. The Opinions regarding Comprehensive Enhancement of Eco-Environmental Protection, Putting Effort on Pollution Prevention and Treatment (《關於全面加強生態環境保護，堅決打好污染防治攻堅戰的意見》)" issued by China in June 2018, further released the needs of environmental governance. It also shows that the eco-environmental protection and pollution prevention work has entered into a crucial stage. With continuous deepening of the eco-environment treatment works such as green development of Yangtze River Economic Belt, treatment of black odor water, solid waste and hazardous waste field and rural wastewater treatment had become hot spots in the environmental protection industry, giving rise to prosperity in environmental industry market. In particular, in October 2018, the Sichuan Province had issued the "Sichuan Province Implementation Measures on Treating and Diligently Fighting City Black and Odor Water" (四川省打好城市黑臭水體治理攻堅戰實施方案). According to such measures, by the end of 2020, the portion of black odor water treatment in built-up areas of prefecture-level cities in Sichuan Province will reach over 90%, which will bring new opportunities and development for the water treatment and environmental protection industry in Sichuan Province in terms of comprehensive treatment projects of river basins and rural water environment management.

In terms of the size of productivity and the rate of acceleration, urban water supply facilities construction in China have approached to saturation and entered a state of maturity. In recent years, the total urban water supply of China had basically maintained a growth rate of 2%-3%. The sewage treatment industry is under continuous development, and the growth rate basically stood around 5%-6%. The reclaimed water utilization business is still in the lead period, and the daily production capacity and consumption of reclaimed water continue to grow. With the promotion of policies and increased investment in environmental protection, there is a large demand for rural water management and river basin water treatment.

The "Opinions on Innovation and Improvement of Price Mechanism for Green Development (《關於創新和完善促進綠色發展的價格機制的意見》)" issued by the National Development and Reform Commission of the PRC in July 2018 brought new development benefits to environmental protection and water enterprises. Such opinions mainly focuses on four aspects, i.e. optimization of wastewater treatment charging policies, improvement of mechanism for solid waste treatment charges, establishment of a price mechanism conducive to water conservation, and improvement of electricity price mechanism promoting energy conservation and environmental protection. In particular, the charge of rural environmental protection and domestic garbage was a breakthrough, which fundamentally solved the problem of insufficient investment in environmental protection treatment in rural areas, and strongly promoted in-depth development of environmental protection related industries, which will significantly be in favor of related water and environmental protection enterprises in the mid and long run.

5.2 DEVELOPMENT STRATEGY AND OUTLOOK

In 2019, the Company will define its strategic position as "standing firm in the primary business of water supply, stretching its businesses in the industry chair expanding and the environmental protection business, and building the core technology". Highlighting the primary business while expanding multiple businesses, the Company will uphold the mission of innovation, strengthen internal control management, uplifting the professional operation capability, improve overall profitability and maintained sustainable development ability.

The Company will achieve diversified development by following China's environmental protection strategies and rural revitalization strategies, focusing on comprehensive sewage treatment. It will develop sewage treatment in rural areas and villages; optimize management and operation model to generate a replicable sewage treatment model in towns and villages; adopt the way of "using reserves to bring improvement and using key points to lead all areas" to realize a deep and excellent development of businesses in different areas; make breakthroughs in the traditional industry development approaches, actively form a cooperative community with the cooperative partners and start deep cooperation on the installation, design, project construction, etc. to integrate the resources and expand the Company's industry chain; step foot in the environmental protection industry regarding starting treatment works on the black odor water and water environment; conduct technology innovations, continuing to conduct research and expansion on intelligence water, water environment treatment and other environmental technology, thereby forging the Company's core environmental protection technology to promote the Company's development with high-speed and high-quality and become the "most trust- worthy comprehensive water resources service provider".

5.3 BUSINESS REVIEW

The Company is an integrated municipal water service provider in Sichuan Province, principally engaged in two segmental businesses; tap water supply and wastewater treatment. We adopt project models of build-own-operate ("**BOO**") and transfer-own-operate ("**TOO**") in the course of business, where we and local governments enter into concession agreements for a normal period of 30 years. The Company mainly engages business in Luzhou area, Weiyuan area in Neijiang City, etc.

As at the end of the Reporting Period, we operated nine tap water plants and nine wastewater treatment plants with a total treatment capacity of approximately 799,500 tons per day.

5.3.1 Tap Water Project

As at the end of the Reporting Period, the Group owned nine tap water plants with a daily supply capacity of approximately 498,500 tons representing an increase of one tap water plant and an increase of approximately 73,000 tons of daily water supply capacity in aggregate as compared with that as at 31 December 2017. The average utilisation rate of tap water plants stood at 83.0%. Benefiting from the acquisition of Weiyuan Qingxi Water, the Group has three additional water plants. Meanwhile, from the perspective of economical efficiency of operation, the Company closed two small scale water plants with aging facilities, low efficiency and high operating cost. Such water supply area of these 2 old tap water plants is covered by that of the Qiancao Supply Plant II.

During the Reporting Period, the total sales of water amounted to approximately 111.2 million tons, representing an increase of 17.1% as compared with approximately 95.0 million tons for the year ended 31 December 2017. The increase was mainly due to the expansion of the city, the launch of the project of "all areas water supply (全域供水)" and "service sector moving (三產移產)" and the business expansion brought by the acquisition of Weiyuan Qingxi Water.

5.3.2 Wastewater Treatment Project

As at the end of the Reporting Period, the Company owned nine operating wastewater treatment plants with a daily treatment capacity of approximately 301,000 tons in aggregate and the average utilisation rate of wastewater treatment plants stood at 73.2%.

During the Reporting Period, our total wastewater treatment capacity amounted to approximately 87.3 million tons, representing an increase of 44.8% as compared with the total actual wastewater treatment capacity of approximately 60.3 million tons for the year ended 31 December 2017. Our total capacity of wastewater treatment with charges amounted to approximately 102.4 million tons, representing an increase of 22.8% as compared with approximately 83.4 million tons for the year ended 31 December 2017, which was mainly attributable to, as stipulated in the relevant service agreements, the increase in the water volume for calculating the minimum charges of wastewater treatment services as compared with the same period of last year, and due to the increase in wastewater treatment capacity resulting from the completion of Ya'erdang capacity expansion project.

5.4 FINANCIAL REVIEW

5.4.1 Analysis of Key Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

5.4.1.1 Revenue

Revenue of the Group increased by 12.6% from approximately RMB1,081.7 million for the year ended 31 December 2017 to approximately RMB1,218.2 million during the Reporting Period.

5.4.1.1.1 Tap water supply

Sales of tap water

Revenue of the Group generated from sales of tap water increased by 13.6% from approximately RMB207.4 million for the year ended 31 December 2017 to approximately RMB235.6 million for the Reporting Period. The increase was primarily due to a growth in the sales volume of tap water from approximately 95.0 million tons for the year ended 31 December 2017 to approximately 111.2 million tons for the Reporting Period. Revenue generated from the sales of tap water accounted for 19.2% and 19.3% of our total revenue for the year ended 31 December 2017 and 2018, respectively.

Installation services

Revenue of the Group generated from installation services increased by 31.1% from approximately RMB215.8 million for the year ended 31 December 2017 to approximately RMB283.0 million during the Reporting Period. The increase was mainly due to the increase in installation of water meters during the Reporting Period. Revenue generated from installation services accounted for 19.9% and 23.2% of our total revenue for the year ended 31 December 2017 and 2018, respectively.

Construction and upgrade on tap water supply infrastructure

Revenue of the Group generated from construction and upgrade on tap water supply infrastructure decreased by 21.0% from approximately RMB452.2 million for the year ended 31 December 2017 to approximately RMB357.1 million during the Reporting Period. The decrease was mainly due to the completion and commencement of operation of Qiancao Supply Plant II in December 2017 and there is no similar comparable project under construction during the Reporting Period, leading to the decrease of the infrastructure construction and upgrade projects.

5.4.1.1.2 *Wastewater treatment*

Operating services

Revenue of the Group generated from operating services of wastewater treatment increased by 27.9% from approximately RMB151.7 million for the year ended 31 December 2017 to approximately RMB194.1 million during the Reporting Period. The increase was primarily due to the increase in the wastewater treatment capacity and increase in demand for wastewater treatment. The capacity of wastewater treatment with charges also increased as compared with the same period last year. The total treatment volume of charged wastewater was 83.4 million tons and 102.4 million tons for the year ended 31 December 2017 and 2018, respectively. Revenue generated from wastewater treatment operation accounted for 14.0% and 15.9% of our total revenue for the year ended 31 December 2017 and 2018, respectively.

Interest income on receivables under service concession arrangements

The Group's interest income on receivables under service concession arrangements increased by 12.9% from approximately RMB35.7 million for the year ended 31 December 2017 to approximately RMB40.3 million during the Reporting Period. The increase was mainly due to the completion and commencement of operation of Ya'erdang capacity expansion project in August 2018, meanwhile the Hejiang Wastewater Treatment Plant II has been added in September 2018, with charging right for certain wastewater treatment, leading to an increase of income interest on receivables.

Construction and upgrade on wastewater treatment infrastructure

Revenue of the Group generated from construction and upgrade on wastewater treatment infrastructure increased by 468.9% from approximately RMB19.0 million for the year ended 31 December 2017 to approximately RMB108.1 million during the Reporting Period. The increase was mainly due to the construction of the Ya'erdang capacity expansion during the Reporting Period.

5.4.1.2 *Cost of Sales and Services*

The Group's cost of sales and services increased by 13.5% from approximately RMB828.3 million for the year ended 31 December 2017 to approximately RMB939.8 million during the Reporting Period.

5.4.1.2.1 *Tap water supply*

Sales of tap water

The Group's cost of sales of tap water increased by 14.2% from approximately RMB182.9 million for the year ended 31 December 2017 to approximately RMB208.8 million during the Reporting Period. The increase was primarily due to commencement of operation of Qiancao Supply Plant II in December 2017, leading to significant increase in infrastructure amortization, provisions and labor cost during the Reporting Period. Cost of sales and services from tap water supply operations accounted for 22.1% and 22.2% of our total cost of sales and services for the year ended 31 December 2017 and 2018, respectively.

Installation services

The Group's cost of sales and services associated with installation services increased by 47.2% from approximately RMB83.7 million for the year ended 31 December 2017 to approximately RMB123.2 million during the Reporting Period. The increase was mainly due to the increase of installation service operation and "service sector moving (三產移產)" during the Reporting Period, leading to the increase in costs of installation labor, construction and raw materials.

Construction and upgrade on tap water supply infrastructure

The Group's cost of construction and upgrade services on tap water supply infrastructure decreased by 21.1% from approximately RMB451.2 million for the year ended 31 December 2017 to approximately RMB356.1 million for the Reporting Period. The decrease was mainly due to the decrease in the amount of construction and upgrade services for operational projects of water supply pipeline network during the Reporting Period.

5.4.1.2.2 *Wastewater treatment*

Operating service

The Group's cost of sales and services from wastewater treatment operating services increased by 57.0% from approximately RMB91.5 million for the year ended 31 December 2017 to RMB143.7 million for the Reporting Period. The increase was primarily attributable to the completion and the commencement of operation of Ya'erdang capacity expansion in August 2018, which resulting in a significant increase in infrastructure amortization, provisions, labor costs and power charge during the Reporting Period and the increase in the cost of pharmacy and cleaning and transportation fees for sludge as a result of stricter environmental protection requirements. Cost of sales and services from wastewater treatment operating services accounted for 11.0% and 15.3% of our total cost of sales and services for the year ended 31 December 2017 and 2018, respectively.

Construction and upgrade on wastewater treatment infrastructure

The Group's cost of sales and services from construction and upgrade services on wastewater treatment infrastructure increased by 468.4% from approximately RMB19.0 million for the year ended 31 December 2017 to approximately RMB108.0 million for the Reporting Period. The increase was mainly due to the construction of the Ya'erdang capacity expansion project during the Reporting Period.

5.4.1.3 *Gross Profit and Gross Profit Margin*

As a result of above, our gross profit slightly increased by 9.8% from approximately RMB253.5 million for the year ended 31 December 2017 to approximately RMB278.4 million during the Reporting Period. Gross profit margin decreased from 23.4% during the year ended 31 December 2017 to 22.9% during the Reporting Period.

5.4.1.3.1 *Tap water supply*

Sales of tap water

The gross profit of the Group for sales of tap water under tap water supply operations increased by 9.4% from approximately RMB24.5 million for the year ended 31 December 2017 to approximately RMB26.8 million during the Reporting Period. The corresponding gross profit margin decreased from 11.8% for the year ended 31 December 2017 to 11.4% during the Reporting Period, which was primarily due to commencement of operation of the Qiancao Supply Plant II in December 2017, leading to the increase in amortization of the infrastructure, in provisions and labor costs during the Reporting Period.

Installation services

The gross profit of the Group for installation services increased by 21.0% from approximately RMB132.1 million for the year ended 31 December 2017 to approximately RMB159.8 million during the Reporting Period. The corresponding gross profit margin decreased from 61.2% for the year ended 31 December 2017 to 56.5% during the Reporting Period, which was mainly due to the gross profit of "service sector moving (三產移產)" water meters renovation projects and secondary water supply unified construction and management projects are generally lower than the gross profit of the general water meters installation projects.

Construction and upgrade on tap water supply infrastructure

The gross profit of the Group for construction and upgrade services on tap water supply infrastructure increased from approximately RMB995,000 for the year ended 31 December 2017 to approximately RMB1,036,000 during the Reporting Period, the gross profit margin increased from 0.2% for the year ended 31 December 2017 to 0.3% during the Reporting Period. The increase was primarily due to the construction of the overall district safety water supply project and pipe network construction project in Jiangyang District was conducted during the Reporting Period.

5.4.1.3.2 *Wastewater treatment*

Operating service

The gross profit of the Group for wastewater treatment operating services decreased by 16.6% from approximately RMB60.3 million for the year ended 31 December 2017 to approximately RMB50.3 million during the Reporting Period. The corresponding gross profit margin decreased from 39.7% for the year ended 31 December 2017 to 25.9% during the Reporting Period. The decrease in gross profit margin was mainly attributable to the higher environmental requirements, the increased medicament cost and the sludge cleaning and transportation fee, and the completion of the Ya'erdang capacity expansion and upgrade project and commencement of operation in August 2018 resulting in a significant increase in the amortization of the infrastructures and provisions.

Construction and upgrade on wastewater treatment infrastructure

The gross profit of the Group for construction and upgrade on wastewater treatment infrastructure increased from approximately RMB11,000 for the year ended 31 December 2017 to approximately RMB116,000 for the Reporting Period. The increase was mainly due to the construction of the Ya'erdang capacity expansion and upgrade project was conducted during the Reporting Period. The gross profit margin for the construction of waste water treatment infrastructure during the Reporting Period was only 0.1%.

5.4.1.4 *Other Income, Expenses, Gains and Losses, Net and impairment loss (net of reversal)*

The Group's other income, expenses, gains and losses, net and impairment loss (net of reversal) increased from approximately RMB14.7 million for the year ended 31 December 2017 to approximately RMB28.5 million during the Reporting Period.

The increase is mainly because the sales income of the secondary water supply equipment and the sales of raw material were increased comparing with the same period in 2017. In addition, as the balance of the Group's listed funds raised from the initial global offering had (in Hong Kong dollars) decreased, the exchange loss decreased from approximately RMB17.6 million in 2017 to approximately RMB9.7 million during the Reporting Period.

5.4.1.5 *Distribution and Selling Expenses*

The Group's distribution and selling expenses increased by 6.4% from approximately RMB12.5 million for the year ended 31 December 2017 to approximately RMB13.3 million during the Reporting Period.

The increase was primarily due to newly consolidation of the staff salary of Weiyuan Qingxi Water and Weiyuan Installation Company and the growth in staff salary during the Reporting Period.

5.4.1.6 *Administrative Expenses*

The Group's administrative expenses increased by 20.6% from approximately RMB57.9 million for the year ended 31 December 2017 to approximately RMB69.8 million during the Reporting Period, which was mainly due to newly consolidation of the staff salary of Weiyuan Qingxi Water and Weiyuan Installation Company and the growth of staff salary and the rise of administrative expenses because of the acquisition of Weiyuan Qingxi Water and Weiyuan Installation Company.

5.4.1.7 *Finance Costs*

The Group's finance costs increased by 38.3% from approximately RMB26.9 million for the year ended 31 December 2017 to approximately RMB37.2 million during the Reporting Period, which was mainly due to the increase in bank borrowings during the Reporting Period.

5.4.1.8 *Income Tax Expense*

The Group's income tax expenses decreased from approximately RMB20.5 million for the year ended 31 December 2017 to approximately RMB19.4 million during the Reporting Period. For the year ended 31 December 2017 and 2018, the actual tax rates of the Group were 12.6% and 10.4%, respectively, which is mainly attribute to difference between the applicable tax rate in terms of income tax liabilities reversal and the current income tax rate is recognized as the corresponding taxable temporary difference.

5.4.1.9 *Profit after Tax and Profit Margin after Tax*

As a result of above, profit after tax of the Group increased by 17.2% from approximately RMB142.7 million for the year ended 31 December 2017 to approximately RMB167.2 million during the Reporting Period. The profit margin after tax increased from 13.2% for the year ended 31 December 2017 to 13.7% during the Reporting Period.

5.4.2 Analysis of Key Items of Consolidated Statement of Financial Position

5.4.2.1 *Property, Plant and Equipment*

The property, plant and equipment of the Group was approximately RMB37.3 million and RMB39.9 million as at 31 December 2017 and 2018, respectively, which consisted primarily of office buildings, machines and office equipment, office furniture and fixtures and vehicles. The increase mainly attributes to the increase of non-infrastructures related machines, office buildings and the vehicles. In addition, the Group acquired Weiyuan Qingxi Water and Weiyuan Installation Company during the Reporting Period, leading to the increase of the official buildings, machines, official equipment, fixed installation and vehicles of Weiyuan Qingxi Water and Weiyuan Installation Company when comparing with 31 December 2017.

5.4.2.2 *Intangible Assets*

Intangible assets of the Group were approximately RMB1,461.2 million and RMB1,947.2 million as at 31 December 2017 and 2018, respectively. The increase was mainly due to the completion of the construction and upgrade work, such as the overall district water supply project in Jiangyang District and the capacity expansion and upgrade project of Ya'erdang. In addition, the Group acquired Weiyuan Qingxi Water during the Reporting Period, leading to the addition of Weiyuan Qingxi Water's intangible assets when comparing with 31 December 2017.

5.4.2.3 *Receivables under Service Concession Arrangements*

The receivables under service concession arrangements of the Group were approximately RMB750.9 million and RMB851.0 million as at 31 December 2017 and 2018, respectively. The increase was mainly due to completion of the Ya'erdang capacity expansion and upgrade project and the addition of Hejiang Wastewater Treatment Plant II during the Reporting Period, leading to the increase in receivables under the service concession arrangements.

5.4.2.4 *Inventories*

The inventories of the Group (consisted primarily of raw materials, including water pipes and other gadgets relating to tap water supply and pipeline installation) amounted to approximately RMB28.0 million and approximately RMB33.0 million as at 31 December 2017 and 2018, respectively. The increase was mainly because "service sector moving (三產移產)" and "overall district water supply (全域供水)" projects of the Group increased during the Reporting Period, which expanded the installation business of water meters, and the Group reserved a larger amount of far passing water gauge and pipe material as at the end of the Reporting Period.

The table below sets forth the average turnover days of our inventories for the indicated periods:

	For the year ended 31 December	
	2018	2017
Average inventory turnover days[1]	**23**	23

Note:

(1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of sales and services of the period (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) and multiplied by the number days in the period.

We excluded cost of sales and services from our construction and upgrade services because our plants are primarily applied to our sales of tap water and installation services and wastewater operating services. We believe exclusion of such costs from the calculation of our inventory turnover days is a more accurate reflection of our operation. Our average inventory turnover days remained unchanged at 23 days.

5.4.2.5 *Trade Receivables*

Our trade receivables were approximately RMB100.4 million and RMB129.2 million as at 31 December 2017 and 2018, respectively.

The table below sets forth the average turnover days of our trade receivables for the indicated periods:

	For the year ended 31 December	
	2018	2017
Average trade receivables turnover days[1]	**56**	55

Note:

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue for the period (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water, installation services in tap water supply operations and wastewater treatment fee in wastewater treatment operations. We believe excluding of revenue from our construction and upgrade services of infrastructure is a more accurate reflection of our actual trade receivables condition. Our average trade receivables turnover days increased from 55 days for the year ended 31 December 2017 to 56 days during the Reporting Period, which was mainly due to the acquisition of Weiyuan Qingxi Water and the temporary unsettlement of water charge by Water Resources Bureau, while we practically strengthened our management policy of recycled trading receivables.

5.4.2.6 *Trade Payables*

Our trade payables were approximately RMB21.8 million and RMB43.4 million as at 31 December 2017 and 2018, respectively.

The table below sets forth the average turnover days of our trade payables for the indicated periods:

	For the year ended 31 December	
	2018	2017
Average trade payables turnover days[(1)]	**25**	16

Note:

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

We excluded cost of sales from our construction and upgrade services because our accounts payable include cost of sales and services incurred from our sales of tap water and installation services and wastewater operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition. Our average trade payables turnover days increased from 16 days for the year ended 31 December 2017 to 25 days during the Reporting Period. The increase was mainly because the Group purchased a large quantity of materials of far passing water meters and pipe network during the Reporting Period.

5.4.2.7 *Trade and Construction Payables*

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

	For the year ended 31 December	
	2018	2017
Average trade payables and construction payables turnover days[1]	**101**	95

Note:

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received for a period (as included in advance from customers and other payables) divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

Our average turnover days of trade and construction payables increased from 95 days for the year ended 31 December 2017 to 101 days for the Reporting Period, which was mainly due to the increase in construction cost of various tap water supply projects, including Naxi water plant (phase I) and water treatment projects, including capacity expansion and upgrade project of Ya'erdang and the Erdaoxi phase III project.

5.4.2.8 *Deferred Income – Government Grants*

Deferred income of the Group was approximately RMB145.0 million and RMB168.7 million as at 31 December 2017 and 2018, respectively. The increase was mainly due to the receipt of grants supplied by the government for Ya'erdang capacity expansion and upgrade project, as well as the construction of Erdaoxi phase III project during the Reporting Period.

5.4.2.9 *Liquidity and Financial Resources*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the Reporting Period. The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising of paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests). The Group is not subject to any externally imposed capital requirements.

As at the end of Reporting Period, the bank balances and cash of the Group amounted to approximately RMB547.7 million (at the end of 2017: RMB700.1 million).

As at the end of Reporting Period, the total borrowings of the Group amounted to approximately RMB844.4 million (at the end of 2017: RMB602.8 million), including bank and other borrowings, of which, approximately 73.5% of our bank and other borrowings bears interest at floating rates.

As at the end of Reporting Period, the net debts to equity ratio of the Group (being calculated by total debts less bank balances and cash divided by total equity) was 15.2% (at the end of 2017: -5.2%).

5.5 EMPLOYEES AND REMUNERATION POLICY

As at the end of the Reporting Period, the Group had 849 employees (at the end of 2017: 775). During the Reporting Period, employee salaries and benefits expenses amounted to approximately RMB142.1 million (2017: RMB116.7 million). The remunerations and benefits for employees, including basic and floating wages, discretionary bonuses and staff benefits, are determined based on their performance and the competence. During the Reporting Period, the Company continue to adjust the new model of salary packing system of the associates of the Company.

During the Reporting Period, the Group did not incur any significant labour disputes that had material impact on the Group's normal business operations.

5.6 INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on 31 March 2017, and 214,940,000 H shares of the Company with par value of RMB1.00 each had been issued at the price of HK$2.30 per share with net proceeds received from the issuance of approximately HK$400.8 million. As at the end of the Reporting Period, HK$393.2 million of the proceeds from the initial public offering had been used by the Group in the way disclosed in the Prospectus and approximately HK$7.6 million of the proceeds had not yet been used.

Please refer to the following table for details:

Use of proceeds	**Amount** *HK$ million*	**Amount used** *HK$ million*	**Amount unused** *HK$ million*
Used for construction of new tap water supply and wastewater treatment facilities	120.24	120.24	–
Used for financing of acquisition of tap water supply or wastewater treatment facilities to be confirmed by us	120.24	120.24	–
Used for repayment of existing bank borrowings	120.24	120.24	–
Used for provision of working capital and general enterprise purposes	40.08	32.53	7.55
Total	400.80	393.25	7.55

5.7 MAJOR ACQUISITIONS AND INVESTMENTS

On 21 September 2018, the Company acquired 60% equity interest in Weiyuan Qingxi Water for a total consideration of RMB37.57 million, and acquired 60% equity interest in Weiyuan Installation Company for a total consideration of RMB17.59 million. After the completion of such equity transfers, two companies became the non-wholly-owned subsidiaries of the Company. Please refer to the announcement issued by the Company on 21 September 2018 for details.

On 21 December 2018, the Company acquired 52.11%, 10.07%, 50.04%, 23.36%, 20.62% and 32.44% equity interest in Nanjiao Water, Beijiao Water, Jiangnan Water, Naxi Water, Sitong Engineering and Sitong Design, respectively, for a total consideration of RMB68.62 million, all of which are non-wholly owned subsidiaries of the Company. Upon the completion of such equity transfers, Nanjiao Water, Beijiao Water and Sitong Design remained as non-wholly-owned subsidiaries of the Company, while Jiangnan Water, Naxi Water and Sitong Engineering became wholly-owned subsidiaries of the Company. Please refer to the announcement issued on 21 December 2018 for details.

On 28 December 2018, the Company acquired 1.63% and 1.57% equity interest in Nanjiao Water and Beijiao Water, respectively, for a total consideration of RMB2.51 million. Upon the completion of such equity transfers, Nanjiao Water and Beijiao Water remained as non-wholly-owned subsidiaries of the Company. Please refer to the announcement issued on 28 December 2018 for details.

Save as disclosed above, the Company did not have any arrangements for major investments or acquisitions of capital assets during the Reporting Period.

5.8 PLEDGES OF THE GROUP'S ASSETS

As at the end of the Reporting Period, the secured bank borrowings of the Group were secured by the operating concessions for overall district water supply project in Jiangyang District, the land-use rights of the Erdaoxi wastewater treatment plant owned by our non-wholly owned subsidiary Xinglu Wastewater Treatment, charging right for certain wastewater treatment fees and the buildings and tapwater supply plants of Weiyuan Qingxi Water. Save as disclosed above, as at the end of the Reporting Period, the Group did not pledge any other assets.

5.9 FOREIGN EXCHANGE RISKS

The Group carries out business in the PRC and receives revenue and pays its costs/expenses in RMB. The Group has a borrowing from The World Bank that is US$ denominated at the end of the Reporting Period and unutilized listing proceeds in Hong Kong dollar, and recognised net foreign exchange losses of RMB9.7 million in the Reporting Period. The Group does not currently hedge its exposure to foreign currencies.

5.10 CONTINGENT LIABILITIES

As at the end of the Reporting Period, the Group did not have any material contingent liabilities.

5.11 SIGNIFICANT INVESTMENT HELD

As at the end of the Reporting Period, the equity investments held by the Group amounted to RMB57.27 million (2017: RMB53.63 million), which mainly represents the Group's equity investment of 17.5% equity interest of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.* (四川省向家壩灌區建設開發有限責任公司) and other unlisted companies in the PRC, such equity instruments investments are measured at fair value through other comprehensive income.

5.12 EVENTS AFTER THE REPORTING PERIOD

On 28 January 2019, the Company entered into a finance lease agreement with CMB Financial Leasing Co., Ltd. (the "**Lessor**"), pursuant to which (i) the Lessor has agreed to purchase the long-term assets (certain balancing tanks, clean water pools, water pipelines and pipe networks located in Luzhou City, "**Lease-back assets**") from the Company; (ii) the Lessor has agreed to lease the assets back to the Company for a term of 60 months commencing from the lease date; (iii) the total principal lease amount is RMB200,000,000; and (iv) an estimated total interest of RMB14,063,000 with an adjustable floating interest rate of 90% of the benchmark interest rate to be charged for RMB term loans of between three years to five years as adopted by the People's Bank of China. On 29 January 2019, the Company has received principal lease amount of RMB150,000,000 of the finance arrangement. Please refer to the announcement issued by the Company on 28 January 2019 for further details.

On 27 February 2019, the Company separately entered into an equity transfer agreement with Luzhou Xingxin Water Environmental Governance Co. Ltd. (瀘州市興新水環境治理有限公司) and Luzhou Tianrun Industrial Development Investment Fund Partnership (Limited Partnership) (瀘州市天潤產業發展投資基金合夥企業(有限合夥)), pursuant to which, the Company agreed to acquire an aggregate of 92.50% equity interest in Fanxing Company at a total consideration of RMB117.00 million. Upon completion of such equity transfer, Fanxing Company became a direct non-wholly owned subsidiary of the Company and its results will be consolidated into the consolidated financial statements of the Group. Please refer to the announcement issued by the Company on 27 February 2019 for further details.

CHAPTER VI DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Up to the date of this annual report, the biographical details of the Directors, Supervisors and the senior management of the Company are set out below:

6.1 EXECUTIVE DIRECTORS

Mr. Zhang Qi (張岐先生), aged 45, joined the Group in 1992 and currently serves as executive Director, the chairman of the Board, a member of the nomination and remuneration committee and a member of strategy committee of the Company. He is primarily responsible for the overall operation of the Board, strategic development and planning and major decision making of the Group. He has also served as director of the Controlling Shareholder, namely, Xinglu Investment, since March 2008, and the vice chairman of the board of directors of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015. He has been serving as director of Sichuan Xinhuoju Chemical Co., Ltd.* (四川新火炬化工責任有限公司) since November 2017.

Mr. Zhang has more than 26 years of experience in the wastewater treatment and tap water supply services industries. He joined Luzhou City Tap Water Co., Ltd.* (瀘州市自來水總公司) ("**Luzhou Tap Water**") as a worker in February 1992, then he served as a section chief assistant of business section from May 1998 to July 1999, as a vice section chief of business section from July 1999 to March 2001, and as a deputy general manager from March 2001 to July 2002. He served as the vice chairman of the Board and the general manager of Xinglu Water Company Limited from July 2002 to December 2005, served as the chairman of the Board and the general manager from December 2005 to December 2006 and served as director and the general manager of Xinglu Water Company Limited from December 2006 to September 2015. He also served as the general manager of Xinglu Wastewater Treatment from December 2003 to May 2005, and as the chairman of the board of directors of Beijiao Water from June 2011 to May 2015. He was re-appointed as the chairman of the board of directors of Xinglu Wastewater Treatment from September 2015 to March 2016.

Mr. Zhang graduated from Sichuan University of Construction Workers* (四川省建築職工大學) in Chengdu, the PRC, majoring in industrial and civil construction in July 1994 and then obtained a master's degree majoring in business administration from Southwestern University of Finance and Economics* (西南財經大學) located in Chengdu, the PRC, in July 2007. Mr. Zhang obtained the qualification as senior engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in 2009.

Mr. Liao Xingyue (廖星樾先生), aged 37, joined the Group in December 2015 and serves as an executive Director, and the general manager of the Company, mainly responsible for the Group's daily operation matters.

Mr. Liao has nearly 10 years of experience of municipal infrastructure planning, investment, construction and management. Before joining the Group, Mr. Liao served as a clerk* (辦事員) in Lu County Construction Bureau* (瀘縣建設局) from September 2009 to May 2010, and served in Lu County Housing and Urban-rural Planning and Construction Bureau* (瀘縣住房和城鄉規劃建設局) as the deputy director of general office from May 2010 to August 2013 and as the chief of personnel department from July 2011 to August 2013. He then served as an officer* (科員) and the vice chief of inspection section* (監督科), successively, in Luzhou Municipal Urban Planning Administration Bureau* (瀘州市城市規劃管理局) from August 2013 to December 2014 and served as the chief of urban planning and construction section* (城市建設科) in Luzhou Municipal Housing and Urban and Rural Construction Bureau* (瀘州市住房和城鄉建設局) from December 2014 to December 2015.

Mr. Liao graduated from Tong Ji University in Shanghai, the PRC, with a bachelor degree, a master degree and a doctor's degree majoring in geological engineering in July 2003, May 2006 and May 2009, respectively.

Mr. Wang Junhua (王君華先生), aged 54, joined the Group in April 2001 and serves as an executive Director, and a deputy general manager of the Company. Mr. Wang is mainly responsible for production and the management of technology information. He also serves as a director of Xinglu Wastewater Treatment, a director of Xingxu Water, and the chairman of Leshan Company.

Mr. Wang has more than 32 years of experience in the tap water supply and wastewater treatment services industries. He started his career in Luzhou City Anfu Water and Electronic Supply Co., Ltd.* (瀘洲市安富供水供電公司) in March 1986. He then served as an assistant manager of Luzhou Tap Water and Xinglu Water Company Limited from April 2001 to September 2002. During this period, Mr. Wang joined Naxi Water and served as the deputy manager from June 2001 to July 2002 and as the manager of Naxi Water from July 2002 to December 2009, and as the chairman of the board of directors of Naxi Water from January 2006 to June 2011. He was appointed as a Director and a deputy general manager of Xinglu Water Company Limited in December 2006 and January 2010, respectively. He also served as the chairman of the board of Jiangnan Water from October 2011 to February 2018, as supervisor of Luzhou Traffic Investment Group Co., Ltd.* (瀘州市交通投資集團有限責任公司) from July 2011 to July 2017, as the chairman of the board of Hejiang Water from April 2013 to February 2017, as the chairman of the board of Nanjiao Water from December 2013 to February 2014, as the chairman of the board of Sitong Engineering from August 2013 to May 2015, and as the chairman of the board of Sitong Design from March 2013 to November 2015.

Mr. Wang graduated from Sichuan University in Chengdu, the PRC, majoring in philosophy in July 1989, and from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) in Chengdu, the PRC, majoring in law in December 2005. Mr. Wang then graduated from Southwest Communications University* (西南交通大學) in Chengdu, the PRC, majoring in business administration in March 2012. Mr. Wang obtained the qualification as a senior administration engineer granted by professional evaluation leading group for enterprise ideological and political personnel in Sichuan province* (四川省企業思想政治工作人員專業職務評定工作領導小組) in November 2009.

6.2 NON-EXECUTIVE DIRECTORS

Mr. Chen Bing (陳兵先生), aged 48, joined the Group in December 2012 and serves as a non-executive Director, and the chairman of the strategy committee of the Company. He concurrently acted as director and deputy general manager of Xinglu Investment, a director of Luzhou Infrastructure, the chairman of the board of Xinglu Investment Fund Management Co., Ltd.* (瀘州市興瀘投資基金管理有限公司), a director of Chuantie (Luzhou) Railway Co., Ltd.* (川鐵(瀘州)鐵路有限責任公司), the chairman of the board of directors and legal representative of Luzhou Rural Development, Investment and Construction Co., Ltd.*(瀘州市農村開發投資建設有限公司), a supervisor of South Sichuan Interurban Railway Co., Ltd.* (川南城際鐵路有限責任公司), a director of Sino-trains Luzhou Port Bonded Logistics Co., Ltd.* (中外運瀘州港保税物流有限公司), the chairman of the supervisors committee of Sichuan Xuda Railway Limited* (四川敘大鐵路有限責任公司) and Longma Xingda Petty Loan Co., Ltd.* (龍馬興達小額貸款股份有限公司) and a director of Luzhou City Chengnan Construction Investment Co., Ltd.* (瀘州市城南建設投資有限公司).

Mr. Chen has over 23 years of experience of corporate management. Before joining the Group, Mr. Chen served in Sichuan Luzhou Investment Co., Ltd.* (四川省瀘州投資公司) as the deputy manager and the manager of securities department from October 1995 to May 1997 and from May 1997 to July 2001 respectively. He served as the manager of investment department of Luzhou Infrastructure from July 2001 to July 2004. He then served positions in Xinglu Investment as the manager of investment department from August 2004 to December 2006, as an assistant general manager from December 2006 to July 2010, as the manager of engineering department from November 2008 to July 2009, and was promoted as the deputy general manager in July 2010. He also served as the general manager and chairman of board of directors of Xinglu Wastewater Treatment from May 2005 to December 2007 and from June 2005 to September 2015 respectively.

Mr. Chen graduated from Zhengzhou Institute of Aeronautical Industry Management* (鄭州航空工業管理學院) located in Zhengzhou, the PRC, majoring in operation management in July 1992, then graduated from Party College of Sichuan Province* (中共四川省委黨校) in Chengdu, the PRC, in June 2004, and then obtained an executive master of business administration from Southwestern University of Finance and Economics* (西南財經大學) located in Chengdu, the PRC, in January 2011. Mr. Chen has been accredited as an assistant economist by Planning Committee of Luzhou City* (瀘州市計劃委員會) in April 1994 and obtained the certificate as a drainage engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in July 2010.

Ms. Xu Yan (徐燕女士), aged 53, joined the Group in December 2014 and serves as a non-executive Director. Ms. Xu has also served as the general manager and assistant president of the Finance Center of Luzhou Laojiao, and as a director of Luzhou Commercial Bank Co., Ltd.* (瀘州市商業銀行股份有限公司) since December 2012.

Ms. Xu has 23 years of experience of accounting and financial management. Before joining the Group, Ms. Xu served as the financial manager of Luzhou Laojiao Hotel* (瀘州老窖大酒店) from December 1995 to December 1996, as the chief of financial of the Luzhou Laojiao Automobile Transportation Company* (瀘州老窖汽車運輸公司) from January 1997 to December 1998, as the financial executive of the third branch of Luzhou Laojiao Co., Ltd.* (瀘州老窖股份有限公司三公司) from January 1999 to November 2000, and then she served many positions in Luzhou Laojiao, as a financial staff from December 2000 to April 2004, as the financial executive, the deputy director of financial center and the director of financial center of Luzhou Laojiao from May 2005 to October 2015 successively. Ms. Xu has also served as the chairman of the board of directors of Longma Xingda Petty Loan Co., Ltd. from December 2011 to February 2017.

Ms. Xu graduated from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, majoring in accounting in December 1992 and from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in accounting finance in December 1999. Ms. Xu obtained the qualification as senior international finance manager granted by International Financial Management Association in November 2011.

Mr. Xie Xin (謝欣先生), aged 42, has served as non-executive Director and a member of audit committee of the Company since September 2017. He also served as assistant president of Beijing Enterprises Water Group and the general manager of the central business region of Beijing Enterprises Water Group.

Mr. Xie served as manager of the decoration engineering company of Chongqing Taixing Technology Development Co., Ltd. from June 1998 to December 2000, deputy general manager of Chongqing Jufu Investment Holding Group Co., Ltd.* (重慶聚富投資控股集團有限公司) from January 2000 to December 2010 and served many positions in the group at the same time during this period. Mr. Xie served as the general manager of Sichuan Shouxin Industrial Co., Ltd.* (四川首信實業有限公司) from January 2011 to January 2015, the general manager of the Sichuan comprehensive business region of Beijing Enterprises Water Group from July 2015 to April 2017. He has served as assistant president of Beijing Enterprises Water Group and the general manager of the Central Business Region since April 2017.

Mr. Xie graduated from the School of Economics and Business Administration of Chongqing University and majored in accounting finance in June 1998, and obtained MBA degree in Real Estate of Chongqing University in 2008.

6.3 INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gu Ming'an (辜明安先生), aged 53, has served as an independent non-executive Director, and the chairman of the nomination and remuneration committee and a member of the audit committee of the Company since 31 March 2017. He concurrently acted as a professor in Southwestern University of Finance and Economics* (西南財經大學). Mr. Gu has also served as independent non-executive director of Chengdu Hi-Tech Development Co., Ltd.* (成都高新發展股份有限公司) (stock code: 000628) and Sichuan Troy Information Technology Co., Ltd.* (四川創意資訊技術股份有限公司) (stock code: 300366) since August 2015 and December 2015 respectively. He also served as independent non-executive director of Luzhou City Commercial Bank Co., Ltd.* (瀘州市商業銀行股份有限公司).

Mr. Gu has over 30 years of experience in teaching and research. Mr. Gu worked in Chengguang Chemical Research Institute of Chemical Industry Ministry* (化工部成光化工研究院) from July 1989 to July 1993, and then he worked at Sichuan Institute of Chemical Industry* (四川輕化工學院) (currently known as Sichuan University of Science and Engineering* (四川理工學院)) from July 1993 to July 1999. Mr. Gu started to serve positions in Southwestern University of Finance and Economics* (西南財經大學) from July 1999, and was engaged as an associate professor and a professor in 2002 and 2008, respectively. He also served as independent non-executive director of Sichuan Renzhi Oilfield Technology Services Co., Ltd. (四川仁智油田技術服務股份有限公司) (stock code: 002629) from August 2014 to September 2016.

Mr. Gu graduated from Southwest China Normal University* (西南師範大學) in Chongqing, the PRC, with a bachelor's degree majoring in law in July 1989 and graduated from Southwestern University of Political Science and Law* (西南政法大學) in Chongqing, the PRC, with a master's degree majoring in law in July 1999, then Mr. Gu graduated from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, with a doctor's degree in 2008.

Mr. Lin Bing (林兵先生), aged 50, has served as independent non-executive Director, and a member of the strategy committee of the Company since 31 March 2017. He concurrently acted as the chairman and a general manager in Zigong Academy of Urban Planning and Design Co., Ltd.* (自貢市城市規劃設計研究院有限責任公司) and a professor in Sichuan University of Science and Engineering* (四川理工學院).

Mr. Lin has over 28 years of experience in the engineering field. Mr. Lin served in Zigong Academy of Urban Planning and Design* (自貢市城市規劃設計研究院) from July 1990 to December 2004, as an engineer, the deputy director of municipal office, the director of the chief engineer office, the assistant to the president and the vice president, successively. Mr. Lin then has served in Zigong Academy of Urban Planning and Design Co., Ltd.* (自貢市城市規劃設計研究院有限責任公司) as the vice president and president, successively, since January 2005 and December 2011, respectively, and served as the vice chairman of the board of directors of Zigong Academy of Urban Planning and Design LLC from December 2011 to December 2017.。

Mr. Lin graduated from Chongqing Construction Engineering College* (重慶建築工程學院) in Chongqing, the PRC, majoring in environmental engineering in July 1990. Mr. Lin obtained the qualification as the registered consulting engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in August 2008, as the registered public facility engineer (water supply and drainage professional) granted by the Ministry of Housing and Urban-rural Department* (中華人民共和國住房和城鄉建設部) in September 2010, and as the registered urban planner granted by the Ministry of Housing and Urban-rural Department* (中華人民共和國住房和城鄉建設部) in August 2013. Mr. Lin was appointed as the bidding evaluation expert by People's Government of Sichuan Province (四川省人民政府) in June 2015 and as a member of legislative advisory group of People's Congress Standing Committee of Zigong City* (自貢市人大常委會立法諮詢組) in May 2016.

Mr. Cheng Hok Kai, Frederick (鄭學啟先生), aged 55, has been serving as our independent non-executive Director, the chairman of the audit committee and a member of the nomination and remuneration committee of the Company since 31 March 2017.

Mr. Cheng has extensive experience in business, finance and accounting management. Prior to joining the Group, from 1985 to 1988, Mr. Cheng worked as an audit assistant and senior accountant of Pricewaterhouse (currently known as PricewaterhouseCoopers), an accounting firm in Hong Kong, where he was primarily responsible for audit assignments for various companies. From 1997 to 2004, Mr. Cheng was the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited, a company principally engaged in designing, developing, and marketing semiconductors and storage systems, focused in the storage, communication, and consumer markets, where he was primarily responsible for finance and accounting function for the operation in Asia Pacific and Japan. From 2004 to 2006, he was the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd., a company principally engaged in providing software and hardware design solutions for electronic design automation, where he was primarily responsible for the finance and accounting function of the operation in the Pacific Rim. From 2006 to 2008, he worked as the finance director for Asia Pacific and Japan of the Autodesk Asia Pte Ltd., a company principally engaged in providing 2D and 3D design software for the manufacturing, building and construction, and media and entertainment markets, where he was primarily responsible for finance and accounting function of the operation in Asia Pacific and Japan. Mr. Cheng then joined PuraPharm International (H.K.) Ltd. as chief financial officer in 2010, then served as company secretary, authorized representative, managing director of corporate finance and investment of PuraPharm Corporation Ltd. (stock code: 1498. HK). Mr. Zheng resigned from the above positions on 31 January 2018.

Mr. Cheng obtained his bachelor's degree in finance and accounting from the University of Salford in the United Kingdom in July 1985, and his master's degree in accounting from the University of New South Wales in Australia in May 1992. Mr. Cheng was admitted as a certified practising accountant of CPA Australia (formerly known as the Australian Society of Certified Practising Accountants) and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in February 1992 and April 1992, respectively. Mr. Cheng became fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia in January 2004 and March 2013, respectively, Mr. Cheng was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in April 1995 and a member of the Governance Institute of Australia (formerly known as Chartered Secretaries Australia) in December 1996. Mr. Cheng became a fellow member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia in June 2012 and November 2013, respectively.

6.4 SUPERVISORS

Ms. Qu Mei (屈梅女士), aged 50, joined the Group in May 2007 and serves as the chairman of Supervisory Committee and a shareholder representative Supervisor. Ms. Qu concurrently served as employee supervisor of Xinglu Investment, the chairman of the supervisory committee of Luzhou Xinglu Agriculture Financing Secured Co., Ltd.* (瀘州市興瀘農業融資擔保有限公司), supervisor of Luzhou Xinglu Financing Guarantee Co., Ltd.* (瀘洲市興瀘融資擔保有限公司), supervisor of Luzhou Huarun Xinglu Gas Co., Ltd.* (瀘州華潤興瀘燃氣有限公司), and supervisor and secretary of general party branch of Luzhou Xinglu Jutai Real Estate Co., Ltd. (瀘州興瀘居泰房地產有限公司).

Ms. Qu has 17 years of experience of corporate management. Before joining the Group, Ms. Qu served in the auto control department of Southwestern Chemical Research Institute* (西南化工研究院) from July 1989 to May 1998, and then served in Sichuan Luzhou Investment Co., Ltd.* (四川省瀘州投資公司) from June 1998 to July 2001. Ms. Qu then served as the deputy director of general manager office of Luzhou Infrastructure from July 2001 to March 2006, and was appointed as the manager of human resource department of Xinglu Investment from March 2006 to March 2016. Ms. Qu also served as the manager of audit department of Xinglu Investment from January 2009 to October 2009. She was appointed as manager of the party affairs department of Xinglu Investment from March 2016 to September 2017, served as supervisor of Luzhou Communications Investment from April 2016 to July 2017 and supervisor of Luzhou Xinglu Lantian Market Management Co., Ltd. (瀘州市興瀘藍天市場管理有限公司) from November 2008 to November 2017. She served as supervisor of Luzhou Xinglu Financing Guarantee Co., Ltd. (瀘州市興瀘融資擔保有限公司) from January 2016 to January 2019.

Ms. Qu graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) in December 2002. Ms. Qu has obtained the human resource management expert granted by Ministry of Labour and Social Security* (中華人民共和國勞動和社會保障部) in June 2006.

Mr. Xu Ke (徐可先生), aged 37, joined the Group in December 2015 and currently serves as a shareholder representative Supervisor. Mr. Xu has served as general manager assistant of the legal affair center of Luzhou Laojiao since November 2015 and was responsible for legal affairs. He also served as director of Luzhou Hailizi Cross Border E-commerce Co., Ltd.* (瀘州海蠣子跨境電子商務股份有限公司) and supervisor of Luzhou Yanxitang Folk Hotel Management Co., Ltd.* (瀘州燕溪堂民俗酒店管理有限公司). He also served as supervisor of Luzhou Laojiao.

Mr. Xu served in People's Court of Jiangyang District, Luzhou City* (瀘州市江陽區人民法院) from September 2000 to March 2012, and as a legal counsel* (法務專員) in Luzhou Alcohol Concentration Development Area Co., Ltd.* (瀘州酒業集中發展區有限公司) from April 2012 to June 2014.

Mr. Xu graduated from Peking University* (北京大學) majoring in law (online course) in July 2005.

Ms. Huang Mei (黃梅女士), aged 50, joined the Group in December 1987 and currently serves as an employee representative Supervisor. She concurrently serves as the chairman of the Labour Union of the Company and secretary of discipline committee of the Party Committee of the Company since 2002 and 2016, respectively, as a supervisor of Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. since March 2015, and supervisor of Xinglu Wastewater Treatment since November 2018.

Ms. Huang served as a worker in Luzhou Tap Water Nanjiao Plant from December 1987 to February 1991. She served in Luzhou Tap Water as a Labour Union assistant and a vice secretary of Youth League branch from March 1991 to March 1998, as the secretary of Youth League branch from January 1997 to June 2002, as a member of Party Committee from November 1998 to June 2002, and as the vice chairman of the Labour Union from April 1998 to June 2002. From July 2002 to March 2016, she served as a vice secretary of Party Committee of the Company and concurrently served as a deputy general manager of the Company from March 2008 to November 2009 and the head of materials supply department of the Company from December 2014 to September 2015. She served as supervisor of Beijiao Water from April 2008 to February 2018 and the chairman of the board of directors of Naxi Water from April 2013 to February 2018. She served as the chairman of the Supervisory Committee of Xinglu Wastewater Treatment from September 2014 to November 2018.

Ms. Huang graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in law in December 1999.

Ms. Xiang Min (向敏女士), aged 47, joined the Group in September 1989. She has served as an employee representative Supervisor since July 2016 and as the office director of the Board of the Company since October 2017. She has concurrently served as the director of Xinglu Wastewater Treatment since September 2014 and as supervisor of Luzhou Industrial Investment Group Co., Ltd. since March 2015.

Ms. Xiang has 22 years of experience of human resource management. Ms. Xiang served as a meter reader and a toll collector at the business department of Luzhou City Tap Water Company* (瀘州市自來水公司) from September 1989 to April 1996, as an operator and a chief officer* (主辦) at the labour and capital department of Luzhou Tap Water from May 1996 to May 2002. She then acted as the head of human resource department of the Company from July 2002 to March 2015, as the general manager assistant of the Company from January 2013 to July 2015, and as the head of political and labour department of the Company from July 2013 to December 2013. Ms. Xiang also served as the director of the Company from December 2009 to June 2016, the chairman of the board of directors of Sitong Engineering from May 2015 to February 2018 and the director of the office of the Company from July 2015 to October 2017.

Ms. Xiang graduated from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) with a bachelor's degree majoring in economic management in December 1999 and from Southwest Jiaotong University* (西南交通大學) in Chengdu, the PRC, majoring in business administration in June 2006. She obtained the qualification as the human resource economist of intermediate level conferred by Ministry of Personnel (中華人民共和國人事部) in November 2000 and the qualification of the first class of human resources manager conferred by Ministry of Labour and Social Security (中華人民共和國勞動和社會保障部) in February 2009.

Mr. Zhu Yuchuan (朱玉川先生), aged 56, joined the Group in April 1984 and serves as an employee representative Supervisor. He has served as the manager of the technology information department of the Company since October 2017. In April 1984, Mr. Zhu started his career in Luzhou Tap Water and served several positions in several plants of Luzhou Tap Water. He served as the vice section chief of business section and deputy manager of urban supply section of the Company from July 1995 to April 2010. He then acted as the manager in Beijiao Water from June 2011 to October 2011, and as the manager in Jiangnan Water from October 2011 to December 2014. He served as the manager of the technology department of the Company from December 2014 to October 2017.

Mr. Zhu graduated from Sichuan Province Cadre Correspondence School* (四川省幹部函授學院) majoring in corporate management and economic law in June 2002 and from Sichuan College of Architectural Technology* (四川建築職業技術學院) in Deyang, the PRC, majoring in building construction and management in January 2007. Mr. Zhu obtained the qualification as drainage engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in January 2003.

Mr. Xuan Ming (宣明先生), aged 48, has served as an external Supervisor since 31 March 2017. Mr. Xuan concurrently served as the director of Sichuan Mayflower Law Firm* (四川五月花律師事務所).

Mr. Xuan has 13 years of experience in legal practice. Mr. Xuan started to act as a lawyer in Sichuan Mayflower Law Firm* (四川五月花律師事務所) from September 2005.

Mr. Xuan graduated from Sichuan Normal University* (四川師範大學) in Chengdu, the PRC, with a bachelor's degree majoring in science in July 1993 and from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, with a master's degree in law in June 2012. Mr. Xuan obtained the certificate of legal professional granted by Ministry of Justice P.R.C* (中華人民共和國司法部) in February 2005.

Mr. Xiong Hua (熊華先生), aged 35, has served as an external Supervisor since 31 March 2017. Mr. Xiong concurrently has served as the vice director of Sichuan Changxin Accounting Firm Co., Ltd.* (四川長信會計師事務所有限公司) since January 2008.

Mr. Xiong has 10 years of experience of accounting. He served as a cashier and an accountant in finance department of Luzhou Huitong Department Store Co., Ltd.* (瀘州匯通百貨股份有限公司) from April 2007 to January 2008.

Mr. Xiong graduated from Sichuan Management College* (四川管理職業學院) in Chengdu, the PRC, majoring in accounting computerisation in December 2005, and graduated from Xichang University (西昌學院), majoring in engineering management in June 2016. Mr. Xiong obtained the certificate of certified public accountant granted by the MoF in October 2008, the qualification of semi-senior accountant granted by Personnel Department of Sichuan Province * (四川省人事廳) in October 2009, the qualification of registered tax agent granted by Sichuan Provincial Human Resources and Social Security Department* (四川省人力資源和社會保障廳) in October 2011, and the certificate of certified public valuer granted by the MoF in December 2011.

6.5 SECRETARY OF THE BOARD

Mr. Chen Yongzhong (陳永忠先生), aged 45, joined the Group in December 2012 and serves as our secretary to the Board and one of our joint company secretaries. He served as the chairman of Weiyuan Qingxi Water and Weiyuan Installation Company since September 2018. Mr. Chen is primarily responsible for assisting the chairman of the Board to deal with daily operations of the Board and external investment.

Mr. Chen has over 21 years of experience of accounting and financing. Before joining the Group, Mr. Chen served in teaching position in Luzhou Finance and Economic School* (瀘州市財經學校) from August 1997 to May 2009. Mr. Chen served as a deputy manager of financial department of Xinglu Investment from August 2009 to December 2014. Mr. Chen subsequently joined the Group and served as the chief financial officer of the Company from December 2012 to December 2017. He also served as the chief financial officer of Xinglu Wastewater Treatment from August 2012 to September 2016.

Mr. Chen graduated from Chengdu Meteorological Institute* (成都氣象學院) in Chengdu, the PRC, with a bachelor's degree majoring in accounting in June 1997. Mr. Chen was accredited as a mid-level accountant by MoF in May 2002, has passed the All Required Subjects of The National Uniform CPA Examination of the PRC in December 2007, obtained the qualification for registered tax agent granted by Sichuan Province Professional Title Reforming Leading Group* (四川省職稱改革工作領導小組) in September 2009 and was registered as a member of Chartered Accountant Association of Sichuan Province* (四川省註冊稅務師協會) in November 2011, and accredited as senior accountant by Human Resources and Social Security of Sichuan Province* (四川省人力資源和社會保障廳) in June 2012, successively. Mr. Chen obtained the qualification as senior international finance manager granted by International Financial Management Association in February 2013.

6.6 SENIOR MANAGEMENT

Mr. Chen Xuejie (陳學傑先生), aged 54, has served as deputy general manager of the Company since August 2017 and was responsible for water supply business services, general affairs and quality system work.

Mr. Chen served as several positions such as reporter and editor of Luzhou Radio Station* (瀘州廣播電臺) from March 1986 to January 1995, successively as reporter, editor, director, deputy editor-in-chief, editor-in-chief, president and secretary of Luzhou Radio and TV News* (瀘州廣播電視報社) from January 1995 to September 2008. Then he served as general manager assistant and manager of the safety management department of Luzhou Guohua Asset Management Co., Ltd.* (瀘州市國華資產經營管理有限公司), and served as deputy general manager from July 2009 to August 2013.

Mr. Chen served as executive director, general manager and other positions of Luzhou Hongyang Guangsha Real Estate Development Co., Ltd.* (瀘州市鴻陽廣廈房地產開發有限公司) (changed its name to "Luzhou Industrial Investment Huarui Real Estate Development Co., Ltd.") from August 2013 to April 2016, as executive director and general manager of Chengdu Luzhou Hotel Co., Ltd.* (成都瀘川酒店有限責任公司) from October 2014 to August 2017, as executive director and general manager of Luzhou State-owned Assets Management Co., Ltd. from April 2016 to August 2017 and as executive and general manager of Luzhou Industrial Investment International Tendering Co., Ltd.* (瀘州工投國際招標有限責任公司) from May 2017 to August 2017.

Mr. Chen graduated from the Department of Economics and Management of the Central Party School of the Communist Party of China in December 1998, and was qualified as intermediate news editor by Luzhou Title Reform Work Leading Team* (瀘州市職稱改革工作領導小組) in April 1999.

Mr. Ouyang Peng (歐陽鵬先生), aged 44, joined the Group in September 2013 and serves as the chief financial officer and manager of the accounting department of the Company. He is mainly responsible for the financial management, material supply management and the legal audit management of the Company. He also serves as the chairman of the board of Sitong Engineering concurrently.

Before joining the Group, Mr. Ouyang worked in the integrated management section of the finance department of Lutianhua (Group) Co., Ltd.* (瀘天化(集團)有限責任公司) from July 1998 to February 2002. Then he served as deputy chief of the finance section of Lutianhua Huajian Company* (瀘天化化建公司) from February 2002 to January 2007, as deputy director of the finance department of Sichuan Lutianhua Hongxu Engineering Construction Co., Ltd.* (四川瀘天化弘旭工程建設有限公司) from February 2007 to September 2013 (during this period, he served as director of the finance department of Sichuan Lutianhua Jingzheng Technology Detection Co., Ltd.* (四川瀘天化精正技術檢測有限公司) from April 2009 to March 2012 concurrently and as deputy director of the finance department of Sichuan Chemical Holdings (Group) Chengdu Engineering Branch* (四川化工控股(集團)成都工程分公司) from February 2012 to August 2013). Thereafter, he served as assistant director of the finance department of Luzhou Xinglu Water Co., Ltd. from November 2013 to March 2014, as deputy director of the finance department of Luzhou Xinglu Water Co., Ltd. from March 2014 to July 2016 and as director of the finance department of the Company from July 2016 to October 2017. He also served as the chief of the finance section of Sitong Engineering from September 2013 to December 2017 and as deputy general manager of Sitong Engineering from April 2014 to January 2018 concurrently.

Mr. Ouyang graduated from Sichuan Union University (now Sichuan University), majoring in economics in July 1998. He was qualified as senior accountant by Sichuan Provincial Human Resources and Social Security Department* (四川省人力資源和社會保障廳) in June 2011.

6.7 JOINT COMPANY SECRETARIES

Mr. Chen Yongzhong (陳永忠先生), aged 45, has served as one of our joint company secretaries since August 2016. He concurrently served as our secretary to the Board. For his biographical details, please refer to “Secretary of the Board” in this section.

Ms. Ng Wing Shan (吳詠珊女士), has served as one of our joint company secretaries since July 2016. Ms. Ng now serves as the assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), mainly responsible for assisting listed companies in professional company secretarial work. Ms. Ng possesses more than 11 years of professional experience in company secretarial field. Ms. Ng is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administration in the United Kingdom.

CHAPTER VII DIRECTORS' REPORT

7.1 PRINCIPAL BUSINESSES

The Group is an integrated operator primarily engaged in municipal water supply and wastewater treatment service. As at the end of the Reporting Period, the Group was the largest tap water supplier in Luzhou Area and Weiyuan Area of Neijiang City. The Group is the only wastewater treatment service provider in county-level cities of Luzhou Area. We have secured from the relevant local governments the exclusive concession rights to operate tap water supply service covering most of Luzhou area and Weiyuan area of Neijiang City and wasterwater treatment services covering Luzhou area.

7.2 RESULTS

The audited results of the Group for the year ended 31 December 2018 are set out in consolidated statement of profit or loss and other comprehensive income on pages 135 to 136. The financial position of the Group at the end of the Reporting Period is set out in the consolidated statement of financial position on pages 137 to 138. The consolidated cash flows of the Group during the Reporting Period are set out in the consolidated statement of cash flows on pages 140 to 141.

7.3 FINAL DIVIDENDS

The Board approved and adopted the following dividend policy. The dividend policy is targeted at providing a stable and sustainable reporting to the Shareholders and the Company will consider the following factors, among others, when deciding whether to recommend the payment of dividends and in determining the amount of dividends:

1. the operation conditions and market environment of the Group;
2. the general financial position of the Group;
3. the actual and future operation and liquidity status of the Group;
4. the profit after tax and distributable profits of the Company and the Group;
5. the development plan and expected working capital requirements of the Group;
6. the expectations of the Shareholders and investors of the Company and the industry practice;
7. the continuity and stability of the dividend distribution policy; and
8. any other factors that the Board considers appropriate.

The Company's declaration of dividends is also subject to any restrictions under the Company Law of the People's Republic of China (the "**Company Law**"), the Listing Rules, the Articles of Association and any other applicable laws, rules and regulations, and fully listens to and considers the opinions of the Shareholders, especially the small and medium Shareholders and independent non-executive Directors, pays attention to the reasonable returns of investors and takes account of the sustainable development of the Company. The Board will review the dividend policy from time to time and cannot ensure that dividends will be proposed or declared for any given period.

The Board proposed to distribute final dividends of RMB0.06 per share (tax inclusive) for the year ended 31 December 2018 (2017: RMB0.08 per share (tax inclusive)) to Shareholders whose names appeared on the register of members of the Company on Wednesday, 10 July 2019 (the "**Record Date**") (subject to the approval of Shareholders on the Annual General Meeting to be held on Friday, 14 June 2019), with the total amount being approximately RMB51,583,000.00. Once approved, the final dividends will be paid on or before Tuesday, 30 July 2019.

7.4 TAX RELIEF

Under the relevant tax rules and regulations of the PRC (collectively, the "**PRC Tax Law**"), the Company is required to withhold and pay enterprise income tax at the rate of 10% when distributing final dividends to non-resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) whose names appear on the H Shares register of members of the Company on behalf them.

In accordance with the PRC Tax Law, the Company is also required to withhold and pay individual income tax when distributing final dividends to individual shareholders whose names appeared on the H Shares register of members of the Company on behalf them. The Company will determine the country of domicile of the individual H Shareholders based on the registered addresses as recorded in the H Shares register of members of the Company on the Record Date with details as follows:

For individual H Shareholders who are Hong Kong and Macau residents and those whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them.

For individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them. If such individual H Shareholders would like to apply for a refund of the additional amount of tax withheld and paid, the Company would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the tax treaties.

For individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of higher than 10% but lower than 20%, the Company would withhold and pay the individual income tax at the agreed-upon effective tax rate on behalf of them.

For individual H Shareholders who are residents of those countries without any tax treaties with the PRC or having tax treaties with the PRC stipulating a dividend tax rate of 20% or more and other situations, the Company would withhold and pay the individual income tax at a tax rate of 20% on behalf of them.

Should H Shareholders have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax implications in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

7.5 CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 15 May 2019 to Friday, 14 June 2019 (both days inclusive), during which period no transfer of Shares will be effected. The record date for entitlement to attend and vote at the Annual General Meeting is Wednesday, 15 May 2019. In order to be qualified to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Tuesday, 14 May 2019.

In order to determine the list of Domestic Shareholders and H Shareholders who shall be entitled to obtain final dividends, subject to the approval of the Shareholders at the Annual General Meeting, the register of members of the Company will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019 (both days inclusive), during which period no transfer of Shares of the Company will be effected. The Company will distribute final dividends to Domestic Shareholders and H Shareholders which are on the register of members of the Company on Wednesday, 10 July 2019. In order to be qualified to obtain final dividends, all transfers accompanied by the relevant share certificates must be lodged with the H share registrar of the Company, namely Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in respect of H Shareholders), or to the Company's registered office in the PRC at 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC (in respect of Domestic Shareholders) no later than 4:30 p.m. on Thursday, 4 July 2019.

7.6 ANNUAL GENERAL MEETING

We will convene the Annual General Meeting on Friday, 14 June 2019.

7.7 BUSINESS REVIEW

The Company's business review during the Reporting Period is set out in the sections of "Business Review" and "Financial Review" to the chapter headed "Management Discussion and Analysis" on pages 15 to 28 in this annual report. The "Financial Review" section also includes the analysis of the performance of relevant key financial indicators during the Reporting Period. The potential development of the Company's businesses is set out in the section "Future Prospect" to the chapter headed "Chairman's Statement" on page 11 and the section "Development Strategy and Outlook" to the chapter headed "Management Discussion and Analysis" on page 15 in this annual report.

7.8 FINANCIAL SUMMARY

Consolidated results and consolidated assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Highlights" on pages 12 to 13 in this annual report.

7.9 ENVIRONMENT POLICY AND PERFORMANCE

The Company complies with various national and local environmental protection laws in China, including *the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Water Law of the People's Republic of China,* and *the Water Pollution Prevention and Control of the People's Republic of China*.

These laws and regulations are the those that we must strictly abide by and executed in the course of operation, and have a significant normative effect on our operations and management, otherwise it will have a significant impact on the Company's operations.

The Company has taken relevant measures in its business operations to comply with the regulatory and industry standards of relevant central and local government departments and industry associations. Due to the raise of environmental protection requirements, the Company has increased the capital investment in compliance measures.

During the Reporting Period, the Company did not encounter any claims arising from failure to comply with the relevant permit and environmental requirements. The Company's production was safe and environmental-friendly, with no non-compliance records.

7.10 COMPLIANCE WITH LAWS AND REGULATIONS

The Board believes the compliance with laws and regulations as the cornerstone of a business and attaches considerable importance to it. To the best knowledge of the Board, during the Reporting Period, the Company has complied with the relevant laws and regulations that have a significant impact on the Company. Furthermore, the Company also has complied with the Listing Rules and the SFO.

7.11 MAJOR RISK FACTORS

The major risks the Company is faced with are as follows:

7.11.1 Market Expansion and Investment Risks

With respect to the business expansion in new regions, due to the strong barriers region-wise of the water supply market, local governments usually favor large-scale water enterprises outside the region under service with advantages in technology, capital and management to serve as the operators of municipal water supply plants. If business expansion cannot be carried out effectively, it will have a negative effect on the Company's revenue.

We will take the following countermeasures: enhance our capabilities in technology, capital and management through technical reform and enhanced management, enable the Company to expand its business into regions where cooperation and support intentions have been shown by the local government, and ensure the external business expansion of the Company through multiple cooperation modes.

7.11.2 Operation and Management Risks

Our operating results and financial position rely on local economic and social conditions. Failure to obtain sufficient funds or refinancing existing debt may adversely affect our operation management and financial conditions.

We will take the following countermeasures: we will ensure that there are sufficient management, operations, human and financial resources to maintain our sustainable development and improve our competitiveness and profitability. Meanwhile, we will enhance risk awareness, establish an effective risk prevention mechanism, implement dynamic management of the entire financing process, and innovate financing methods to minimize financing costs.

7.11.3 Cost Control Risks

In recent years, the quality of energy, labour, raw materials and environmental standards have improved. In particular, according to the requirements of environmental protection, the increase in standard and capacity of sewage treatment facilities will lead to a certain increase in the direct operating costs, which may adversely affect the financial condition of the Company.

We will take the following countermeasures: combine the construction of internal supervision system, further improve the operation management system and business processes; strengthen the management and construction of subordinate enterprises and continue to promote our refined management system; pay attention to employee training and improve their professional skills; and continue to explore core technologies through automation improvement and promotion of smart water meters for energy conservation and consumption reduction.

7.11.4 Policy Risks

Environmental protection projects such as water and wastewater are characterized by their public welfare nature and long investment cycles. Given the fact that the country's economic growth is subject to cyclical changes with differences in the specific situations of different localities and that the time and extent for the adjustment of water prices are also subject to certain uncertainties, water investments are subject to certain policy risks as well as restrictions from laws, policies and local regulations.

We will take the following countermeasures: pay close attention to changes in the state's macroeconomic policies and take full advantage of the preferential policies provided by the state to enhance the collection, study and analysis of market and industrial policy information. Through adjusting the internal business structure, the Company will improve the standard of scientific decision making of its management, and enhance the Company's resilience and the ability to resist policy risks.

7.11.5 Network Risk and Security

If the network and information systems are attacked and causes the interruption of the information system, the network interruptions and the data corruption, changes, leakage, and loss may adversely affect the Company's operations.

We will adopt the following countermeasures: improve the internal management system, improve the operation and maintenance management supervision system; strengthen the comprehensive technical prevention and emergency protection measures; enhance the technical staff's network security risk awareness and compliance operation level.

During the Reporting Period, there were no cybersecurity risk events in the Company's network and information systems.

7.11.6 Data Fraud and Theft

With the deepening application of information systems, various information may be scammed and stolen, and the leakage and loss of data may adversely affect the Company's reputation.

We will take the following countermeasures: strengthen business system management and control; improve network system security; strengthen security risk awareness education, and control the safe and compliant use of various business data of the Company through systems, business training and technical protection measures.

During the Reporting Period, the Company did not have any data fraud and theft.

7.12 KEY RELATIONSHIPS

7.12.1 Employees

At the end of the Reporting Period, the Company had 849 employees in total. We believe that employees are valuable resources for our success, so the Group attaches great importance to the development of career paths of its staffs and provide more comprehensive career training and development plan for all employees. During the Reporting Period, the staff skill rating was carried out and linked to the salary, which fully encouraged employees to upgrade their skills. We will provide new employees with training corresponding to their expected duties.

The details of the employee remuneration are set out in the section headed "Management Discussion and Analysis" on page 28 of this annual report.

Pursuant to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and relevant national and local government regulations, we maintain a number of social security funds for our employees, including funds for basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, maternity leave insurance and housing provident fund.

Our union represents our employees' interests and closely communicate with our management on labour matters. As of the end of the Reporting Period, we did not experience disruptions in operations due to major labour disputes. None of the employees and third parties has submitted major claims to us and there are no penalties imposed by the relevant government authorities.

7.12.2 Customers

In tap water supply, our customers are mainly urban and rural residents, industrial and commercial users and other institutions in three districts and two counties of Luzhou. In wastewater treatment service, our customers are mainly local governments in three districts and four counties in Luzhou.

The Group adheres to the business philosophy of "Customer Orientation" and maintaining a good relationship with its customers is very important to the long-term development of the Group. Therefore, the Group is committed to providing high quality services to its customers.

During the Reporting Period, the total amount of sales to the five largest customers of the Group was RMB721.7 million, accounting for 59.2% of the total amount of revenue for the Reporting Period, and the total amount of sales to the largest customer was RMB380.6 million, accounting for 31.2% of the total amount of revenue for the Reporting Period.

Our top five customers are independent third parties. During the Reporting Period, the Directors and the Supervisors, and their respective close associates, or any Shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the issued Shares of the Company as of the end of the Reporting Period) do not hold any interest in the top five customers of the Group. There is no such situation in the Company that our major customers are our suppliers at the same time.

7.12.3 Suppliers

Our main suppliers are power suppliers (providing power for our facilities), construction contractors (designing and building our facilities) and raw material suppliers (supplying chemicals for tap water production and sewage treatment, and other equipment maintenance consumables).

In addition to the public service providers, we have developed a centralized procurement policy for our suppliers. According to this policy, the Group needs to bid to different suppliers and select suppliers based on the price, quality and timeliness of their products. All supply contracts are subject to review and approval by the headquarters and are regularly tested by the headquarters to check the quality of the delivered product.

During the Reporting Period, the total amount of procurement from the five largest suppliers of the Group was RMB339.5 million, accounting for 44.0% of the total amount of procurement for the Reporting Period. The purchase from the largest supplier was RMB86.5 million, accounting for 11.2% of the total amount of procurement for the Reporting Period.

Our top five suppliers are independent third parties. During the Reporting Period, the Directors and the Supervisors, and their respective close associates, or any Shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the issued Shares of the Company) do not hold any interest in the top five suppliers of the Group.

7.13 SHARE CAPITAL

At the end of the Reporting Period, the number of the Company's total Shares was 859.71 million shares and the total share capital was RMB859.71 million, with RMB1.00 per share, of which, RMB644.77 million for Domestic Shares and RMB214.94 million for H Shares.

7.14 BOND ISSUANCE

On 3 December 2018, the Company held the first extraordinary general meeting of 2018 to approve the special resolutions to issue corporate bonds and authorize the Board or its authorized persons to deal with the matters relating to the issue of the Corporate Bonds, and intends to publicly issue corporate bonds to qualified investors. The Company received an approval issued by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2019] No. 272) (證監許可[2019]272號) and dated 28 February 2019 authorizing it to publicly issue corporate bonds with a total face value of no more than RMB700.00 million. The Company will issue them in installments according to actual conditions. For details, please refer to the announcements issued by the Company on 12 October 2018, 3 December 2018, 28 December 2018 and 7 March 2019 and the circular of the Company dated 19 October 2018.

7.15 PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

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

7.16 PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any requirement on pre-emptive rights.

7.17 DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the changes in the Company's reserves during the Reporting Period are set out in the consolidated statement of changes in equity, of which the reserves distributable to the Shareholders are also set out.

7.18 PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group during the Reporting Period are set out in the Note 16 to the consolidated financial statements in this annual report.

7.19 BANK BORROWINGS AND OTHER BORROWINGS

Details of the Group's bank borrowings and other borrowings as at the end of the Reporting Period are set out in the Note 30 to the consolidated financial statements in this annual report.

7.20 DONATIONS

During the Reporting Period, the Group's external donation amounted to RMB183,000 (excluding employees' personal donation).

7.21 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

7.21.1 Directors

The Board of the Company comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Directors are appointed by Shareholders of the Company, with a term of three years or until the expiry of first session of the Board (whichever is earlier) and eligible for re-election.

The following table sets forth the status of Directors of the Company during the Reporting Period and as at the date of this annual report:

Name	**Position in the Company**	**Appointment date of current term**
Mr. Zhang Qi	Executive Director and Chairman of the Board	December 2015
Mr. Liao Xingyue	Executive Director and General manager	December 2015
Mr. Wang Junhua	Executive Director and Deputy general manager	December 2015
Mr. Chen Bing	Non-executive Director	December 2015
Mr. Xie Xin	Non-executive Director	September 2017
Ms. Xu Yan	Non-executive Director	December 2015
Mr. Gu Ming'an	Independent non-executive Director	March 2017
Mr. Lin Bing	Independent non-executive Director	March 2017
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	March 2017

7.21.2 Supervisors

The Supervisory Committee of the Company comprises seven Supervisors, including two shareholder representative Supervisors, three employee representative Supervisors and two external Supervisors. Save for employee representative supervisors, other supervisors are appointed by Shareholders of the Company, with a term of three years or until the expiry of the first session of the Supervisory Committee (whichever is earlier) and eligible for re-election.

The details of the status of Supervisors of the Company during the Reporting Period and as of the date of this annual report are set out in the section headed "Supervisory Committee's Report" on page 68 of this annual report.

7.21.3 Senior Management

The Company has one general manager, several deputy general managers, one chief financial officer and one secretary to the Board, all appointed or dismissed by the Board. They have a term of three years and are eligible for re-election.

The following table sets forth the status of senior management of the Company during the Reporting Period and as at the date of this annual report:

Name	Position in the Company	Appointment date of current term
Mr. Chen Yongzhong	Secretary to the Board	May 2016
	Joint company secretary	July 2016
Mr. Chen Xuejie	Deputy general manager	August 2017
Mr. Ouyang Peng	Chief financial officer	December 2017

7.21.4 Changes in the Information of Directors, Supervisors and Chief Executives

During the Reporting Period, there were no changes in the information of directors, supervisors or chief executives of the Company.

7.21.5 Biographies of the Directors, Supervisors and Senior Management

The biographical details of Directors, Supervisors and senior management of the Company are set out in the section headed "Directors, Supervisors and Senior Management" on pages 32 to 44 of this annual report.

7.21.6 Service Contract of the Directors and Supervisors

The Company has entered into a service contract with each of the Directors, Supervisors and senior management containing terms relating to, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration. The service contracts may be renewed in accordance with its terms, the Articles of Association and applicable rules.

During the Reporting Period, none of the Directors or Supervisors has entered into any service contract with the Company which does not expire or is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

7.21.7 Remuneration of Directors and Supervisors

Details for remuneration of Directors and Supervisors are set out in Note 13 to the consolidated financial statements in this annual report.

7.21.8 Determination of and Basis for Determination of Remuneration of the Directors, Supervisors and Senior Management

The Company offers executive Directors, employee representative Supervisors and senior management members, who are also employees of the Company, emolument in the form of basic salary, performance-based bonus and other benefits. We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals. Independent non-executive Directors and external Supervisors are entitled to emolument offered by the Company. Non-executive Directors and shareholder representative Supervisors who do not assume any management positions in the Company will not receive any emolument from the Company.

7.21.9 Directors' and Supervisors' Rights to Acquire Shares or Bonds

During the Reporting Period, the Company did not grant any rights to acquire benefits by means of the acquisition of Shares or bonds of the Company to any Directors or Supervisors or their respective spouses or minor children under 18, and none of them has exercised such rights.

7.21.10 Directors' and Supervisors' Interests in Transactions, Agreements or Contracts

During the Reporting Period, none of Directors or Supervisors or entities connected with any of them directly or indirectly held material interest in subsisting and significant transactions, arrangements or contracts of the Group.

7.21.11 Directors' and Supervisors' Interests in Competing Business

During the Reporting Period, to the knowledge of the Board, none of the Directors or Supervisors or their respective associates has any business or interest that competes or may compete with the business of the Group or has or may have any other conflict of interest with the Group.

7.21.12 Interests and Short Positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares And Debentures

As at the end of the Reporting Period, none of the Directors, Supervisors or chief executive had any interests and/or short positions in the Shares, and (in respect of positions held pursuant to equity derivatives) underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or was required, pursuant to the Model Code to be notified to the Company and Hong Kong Stock Exchange.

7.22 INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

To the best knowledge of the Company, as at the end of the Reporting Period, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section, or owned interest and short positions in more than 5% of any class of issued shares of the Company:

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares[1]	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Xinglu Investment* (興瀘投資)[2]	Beneficial owner	Domestic Shares Domestic Shares	511,654,127(L)	79.35%	59.52%
	Interest in a controlled corporation	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Luzhou Laojiao* (瀘州老窖)	Beneficial owner	Domestic Shares	70,406,310 (L)	10.92%	8.19%
Luzhou Infrastructure* (瀘州基建)[2]	Beneficial owner	Domestic Shares	62,709,563 (L)	9.73%	7.29%
Beijing Enterprises Water Group Limited[3]	Beneficial owner	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Environmental Construction Limited[3]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Holdings Limited[3]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group (BVI) Company Limited[3]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Group Company Limited[3]	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Beijing Enterprises Investments Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%

Name of Shareholder	Shareholding capacity	Class of Shares	Number of Shares[1]	Approximate percentage in class of Shares issued	Approximate percentage in total Shares issued
Modern Orient Limited	Interest in a controlled corporation	H Shares	71,150,000 (L)	33.10%	8.28%
Sichuan Sans Venture Capital Co., Ltd. [4] [7]	Beneficial owner	H Shares	19,247,000 (L)	8.95%	2.24%
Suntront Intelligence (Hong Kong) Co., Ltd. [5]	Beneficial owner	H Shares	16,884,000 (L)	7.86%	1.96%
Suntront Tech Co., Ltd. [5]	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Fei Zhanbo (費戰波)[5]	Interest in a controlled corporation	H Shares	16,884,000 (L)	7.86%	1.96%
Luzhou Xiangyang Real Estate Development Co., Ltd. (瀘州向陽房地產開發有限公司) [6] [7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Lunfen (楊倫芬) [7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Wang Xiumei (王秀梅) [7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Yang Bin (楊彬) [7]	Beneficial owner	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao Trust Co., Ltd. [7]	Beneficiary of a trust	H Shares	77,787,000 (L)	36.19%	9.05%
Hwabao • Overseas Market Investment II (37–1 QDII Single Fund Trust) [7]	Beneficiary of a trust	H Shares	19,247,000 (L)	8.95%	2.24%
Hwabao • Overseas Market Investment II (20–14 QDII Single Fund Trust) [7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37–3 QDII Single Fund Trust) [7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (37–4 QDII Single Fund Trust) [7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%
Hwabao • Overseas Market Investment II (20–15 QDII Single Fund Trust) [7]	Beneficiary of a trust	H Shares	14,635,000 (L)	6.81%	1.70%

(1) As at the end of the Reporting Period, the Company had issued totally 859,710,000 Shares, including 644,770,000 Domestic Shares and 214,940,000 H Shares. (L) represents long position.

(2) Xinglu Investment has 79.13% interests in Luzhou Infrastructure. Therefore, pursuant to the SFO, Xinglu Investment is deemed to be interested in the Domestic Shares held by Luzhou Infrastructure.

(3) Beijing Enterprises Water Group Limited is held by Beijing Enterprises Environmental Construction Limited as to 43.76%, which is in turn wholly-owned by Beijing Enterprises Holdings Limited, which is held as to 41.06% by Beijing Enterprises Group (BVI) Company Limited, as to 100% by Beijing Enterprises Group Company Limited. Therefore, pursuant to the SFO, all of Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited are deemed to be interested in H Shares held by Beijing Enterprises Water Group Limited.

(4) Sichuan Development Holding Co., Ltd has 100% interests in Sichuan Sans Venture Capital Co., Ltd. Therefore, pursuant to the SFO, Sichuan Development Holding Co., Ltd is deemed to be interested in H Shares held by Sichuan Sans Venture Capital Co., Ltd.

(5) Suntront Tech Co., Ltd has 100% interests in Suntront Intelligence (Hong Kong) Co., Ltd. Fei Zhanbo has 35.70% interests in Suntront Tech Co., Ltd. Therefore, pursuant to the SFO, Fei Zhanbo and Suntront Tech Co., Ltd are deemed to be interested in H Shares held by Suntront Intelligence (Hong Kong) Co., Ltd.

(6) Luzhou Xiangyang Enterprises Group Limited (瀘州向陽企業集團有限公司) has 55% interests in Luzhou Xiangyang Real Estate Development Co., Ltd (瀘州向陽房地產發展有限公司). Therefore, pursuant to the SFO, Luzhou Xiangyang Enterprises Group Limited is deemed to be interested in H Shares held by Luzhou Xiangyang Real Estate Development Co., Ltd.

(7) Sichuan Sans Venture Capital Co., Ltd holds a total of 19,247,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37–1 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Luzhou Xiangyang Real Estate Development Co., Ltd holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20–14 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Yang Lunfen holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37–3 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; Wang Xiumei holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (37–4 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd; and Yang Bin holds a total of 14,635,000 H Shares through a trust named "Hwabao • Overseas Market Investment II (20–15 QDII Single Fund Trust)" managed by Hwabao Trust Co., Ltd. Pursuant to the SFO, Hwabao Trust Co., Ltd, acting as the trustee for the above-mentioned trusts, is deemed to be interested in the aggregate 77,787,000 H Shares with interests owned by such trusts. None of the Hwabao • Overseas Market Investment II (37–1 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (20–14 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37–3 QDII Single Fund Trust), Hwabao • Overseas Market Investment II (37–4 QDII Single Fund Trust) and Hwabao • Overseas Market Investment II (20- 15 QDII Single Fund Trust) has any interests and/or short positions in the Company which are required to be notified to the Company or the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, to the best knowledge of the Company, as at the end of the Reporting Period, no person (other than the Directors, Supervisors and chief executives of the Company) informed the Company that they had interests and/or short positions in the Share and (in respect of positions held pursuant to equity derivatives) underlying Shares and/or debentures of the Company which were required to be notified to the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required by Section 336 of the SFO to be recorded in the register specified in the section.

7.23 SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and to the knowledge of the Board, the Company has maintained the minimum public float required by the Listing Rules during the Reporting Period.

7.24 EQUITY-LINKED AGREEMENT

During the Reporting Period, the Company has not entered into any equity-linked agreement.

7.25 INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

Details about the IPO and the use of proceeds from the IPO as at the end of the Reporting Period are set out in the section headed "Initial Public Offering and Use Of Proceeds from the Initial Public Offering" in "Management Discussion and Analysis" on page 29 of this annual report.

7.26 MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business was entered into or existed during the Reporting Period (other than service contracts related to Directors, Supervisors and all staff of the Group).

7.27 MATERIAL CONTRACTS

Save as disclosed in this annual report, during the Reporting Period, the Company or any of its subsidiaries have not entered into any material contracts with the Controlling Shareholder or any of its subsidiaries, or did not have any material contracts in relation to provision of services by the Controlling Shareholder or any of its subsidiaries.

7.28 CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

7.28.1 Provision of Tap Water Supply Services

The Group has been providing tap water supply services in it ordinary and usual course of business to the public in Luzhou Area, Sichuan Province, which also includes the connected persons of the Company (including the Controlling Shareholder and its subsidiaries). During the Reporting Period, the provision of tap water supply services by the Group to the connected persons constituted continuing connected transactions under Chapter 14A of the Listing Rules.

The tap water supply services provided by Group to its connected persons are conducted in the ordinary and usual course of the Group's business and on normal commercial terms that are identical or no more favorable than those offered to independent third parties. Therefore, these continuing connected transactions, namely selling of consumer goods and services under Chapter 14A.97 of the Listing Rules, will be fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount of the tap water supply income of the Group was approximately RMB3.5 million.

7.28.2 Provision of Installation Services

The Group has been providing installation services (including water quality testing after installation) in it ordinary and usual course of business to the certain connected persons of the Company (including the Controlling Shareholder and its subsidiaries). During the Reporting Period, the provision of installation services by the Group to the connected persons constituted continuing connected transactions under Chapter 14A of the Listing Rules. The installation services provided by Group to its connected persons are conducted in the ordinary and usual course of the Group's business and on normal commercial terms that are identical or no more favorable than those offered to independent third parties. Therefore, these continuing connected transactions, namely selling of consumer goods and services under Chapter 14A.97 of the Listing Rules, will be fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

On 23 November 2018, the Company entered into the Construction Service Agreement with Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司) ("**Jutai Real Estate**"), pursuant to which, the Company agreed to provide water supply pipelines construction and installation services to Jutai Real Estate until 31 December 2018, with an annual cap of RMB8.473 million. As Jutai Real Estate is a 30% controlled company (as defined in the Listing Rules) of Xinglu Investment, the controlling shareholder of the Company, Jutai Real Estate is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Jutai Real Estate constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount of the installation service income received and water quality testing income of the Group was RMB9,446,000.

7.28.3 Property Lease

The Company has been using and occupying the first, fifth to ninth floors of a property situated at 16 Baizi Road, Jiangyang District, Luzhou City, Sichuan Province, the PRC, with a gross floor area of approximately 5,989 square meters as the Company's office pursuant to a property leasing agreement ("**Company Property Leasing Agreement**") dated 30 June 2014 between Luzhou City Xinglu Assets Management Co., Ltd. and the Company for the use and occupation of the said property at nil consideration for a term from 30 June 2014 to 29 June 2017. Such Company Property Leasing Agreement was renewed on 1 July 2017 with a term from 1 July 2017 to the date of completion of construction of office building and commencement of operation ("**Renewed Company Property Leasing Agreement**") as the office building of the Company has not been put into use upon expiry of the Company Property Leasing Agreement. Upon completion of construction and put into use of such office building, the Company will cease to use or occupy the said property leased from Luzhou City Xinglu Assets Management Co., Ltd. Given that the consideration under the Company Property Leasing Agreement and the Renewed Company Property Leasing Agreement is nil, and thus each of the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the transaction thereunder is less than 0.1%, such transaction constitute de minimis continuing connected transaction under Rule 14A.76 of the Listing Rules. Therefore, such transaction will be fully exempt from the shareholders' approval, annual review, announcement and all disclosure requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, the total amount paid by the Company for the property lease was nil.

7.28.4 Property Management

On 31 December 2017, the Company, Nanjiao Water and Luzhou Xinglu Property Management Co., Ltd.* (瀘州興瀘物業管理有限公司) ("**Xinglu Property Management**") entered into a Property Management Services Agreement, pursuant to which Xinglu Property Management agreed to provide property management services to the facilities of the new and old Nanjiao Supply Plant and other properties as separately agreed by the parties, with the term from 1 January 2018 to 15 October 2019 and with an annual cap of approximately RMB0.2 million. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment, the controlling shareholder of the Company, Xinglu Property Management is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Property Management constitutes continuing connected transactions of the Company under the Listing Rules. However, pursuant to Rule 14A.76(1) of the Listing Rules, all applicable percentage ratios under the transaction are less than 0.1%, and therefore the Company is fully exempt from shareholders' approval, annual review and all disclosure requirements, and the Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

On 31 December 2017, Beijiao Water and Xinglu Property Management entered into a Property Management Services Agreement, pursuant to which Xinglu Property Management agreed to provide property management services to the facilities of Beijiao Supply Plant and other properties as separately agreed by the parties, with the term from 1 January 2018 to 15 October 2019 and with an annual cap of approximately RMB0.2 million. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment, the controlling shareholder of the Company, Xinglu Property Management is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Property Management constitutes continuing connected transactions of the Company under the Listing Rules. However, pursuant to Rule 14A.76(1) of the Listing Rules, all applicable percentage ratios under the transaction are less than 0.1%, and therefore the Company is fully exempt from shareholders' approval, annual review and all disclosure requirements, and the Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

On 15 June 2018, Xinglu Wastewater Treatment and Xinglu Property Management entered into a property management contract, pursuant to which Xinglu Property Management agreed to provide property management services to the Group, with the term from the date of signing the contract to 31 May 2020 and with the annual caps of RMB3.5 million, RMB5 million and RMB2 million for the two years ended 31 December 2019 and for the five months ending 31 May 2020, respectively. As Xinglu Property Management is a wholly-owned subsidiary of Xinglu Investment, the Controlling Shareholder of the Company, Xinglu Property Management is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Xinglu Property Management constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

7.28.5 TRANSFER OF EQUITY INTEREST

On 21 December 2018, the Company entered into a series of the Equity Transfer Agreements with Luzhou Zhongxu Asset Investment Co., Ltd.* (瀘州市中旭資產投資有限公司) ("**Luzhou Zhongxu**"), pursuant to which the Company agreed to acquire the equity interest of 43.83%, 8.3%, 44.19%, 21.78%, 18.64% and 29.66% held by Luzhou Zhongxu in each of Nanjiao Water, Beijiao Water, Jiangnan Water, Naxi Water, Sitong Engineering and Sitong Design at an aggregate consideration of approximately RMB59.46 million. Luzhou Zhongxu is then a substantial shareholder of each of the Company's subsidiaries, namely Nanjiao Water, Beijiao Water, Jiangnan Water, Naxi Water, Sitong Engineering and Sitong Design, Luzhou Zhongxu is considered to be a connected person of the Company under Chapter 14A of the Listing Rules and therefore, the transaction between the Group and Luzhou Zhongxu constitutes continuing connected transactions of the Company under the Listing Rules. The Company has also complied with relevant requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, other transactions as set out in the note 45 in the consolidated financial statements do not constitute continuing connected transactions or connected transactions of the Company as set out in Chapter 14A or are exempt from the reporting, announcement, annual review and shareholders' approval requirement. The Directors confirmed that the Company has complied with relevant disclosure requirements under Chapter 14A of the Listing Rules.

7.28.6 CONFIRMATION FROM INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDITORS OF THE COMPANY

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that such transactions were:

(1) entered into in the ordinary and usual course of business of the Group;

(2) carried out in normal commercial terms or better; and

(3) carried out according to the relevant transaction agreements, the terms of which are fair and reasonable, and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to conduct audit work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Pursuant to the rule 14A.56 of the Listing Rules, the auditor has issued a letter to the Board of the Company that nothing has come to their attention that causes them to believe that the continuing connected transactions disclosed by the Group:

1. have not been approved by the Company's board of directors;

2. for transactions involving the provision of goods or services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

4. have exceeded the annual caps set by the Company.

7.29 COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Controlling Shareholder signed a non-competition agreement (the "**Non-competition Agreement**") on 10 March 2017, in favour of the Company. Pursuant to the Non-competition Agreement, the Controlling Shareholder has irrevocably undertaken to the Company that it would not, and would procure that its subsidiaries would not, directly or indirectly, engage in any relevant business that may be in competition with the Company. Non-competition business refers to all business lines of the Group operated currently and to be operated from time to time in the future, which includes but not limited to tap water supply and wastewater treatment services. For details, please refer to the section headed "Relationship with our Controlling Shareholder" in the Prospectus of the Company.

The Controlling Shareholder has confirmed in writing to the Company it has fully complied with the non-competitive commitments during the Reporting Period.

The independent non-executive Directors have reviewed the information provided by the Controlling Shareholder regarding compliance with the Non-competition Agreement and determined that the Controlling Shareholder had fully complied with and was not in breach of the Non-competition Agreement during the Reporting Period.

7.30 COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, except for code provision A.4.2 of the Corporate Governance Code, the Company has complied with all code provisions of the Corporate Governance Code. For details about corporate governance practice of the Company, please refer to the section headed "Corporate Governance Report" on pages 73 to 88 of this annual report.

7.31 PERMITTED INDEMNITY PROVISIONS

During the Reporting Period, the Company has purchased and maintained a collective liability insurance covering, but not limited to, all Directors.

7.32 SIGNIFICANT LEGAL PROCEEDINGS

During the Reporting Period, the Company had not been involved in any material legal proceedings nor arbitration, and the Directors are not aware of any legal proceedings or claims of material importance pending or threatened against the Company at the end of the Reporting Period.

7.33 AUDIT COMMITTEE

The audit committee of the Group has reviewed the annual results and the consolidated financial statements of the Company for the year ended 31 December 2018.

7.34 EVENTS AFTER THE REPORTING PERIOD

Details of the events after the Reporting Period of the Group are set out in paragraph 5.12 of Management Discussion and Analysis on page 31 of this annual report.

7.35 INTERNATIONAL AUDITOR

Deloitte Touche Tohmatsu was appointed as auditor of the Company for the consolidated financial statements prepared in accordance with IFRSs for the year ended 31 December 2018. The Company's consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRSs have been audited by Deloitte Touche Tohmatsu. The Company has retained the services of Deloitte Touche Tohmatsu since 2016.

Luzhou Xinglu Water (Group) Co., Ltd.
Chairman of the Board
Zhang Qi

Luzhou, the PRC
28 March 2019

CHAPTER VIII SUPERVISORY COMMITTEE'S REPORT

8.1 COMPOSITION OF THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises seven Supervisors, including two shareholder representative Supervisors, three employee representative Supervisors and two external Supervisors, with a term of three years and eligible for re-election.

Supervisors of the Company during the Reporting Period and as of the date of this annual report are as follows:

Name	Position in the Company	Appointment date of current term
Ms. Qu Mei	Chairperson of the Supervisory Committee and shareholder representative Supervisor	December 2015
Mr. Xu Ke	Shareholder representative Supervisor	December 2015
Ms. Huang Mei	Employee representative Supervisor	June 2016
Ms. Xiang Min	Employee representative Supervisor	July 2016
Mr. Zhu Yuchuan	Employee representative Supervisor	December 2015
Mr. Xuan Ming	External Supervisor	March 2017
Mr. Xiong Hua	External Supervisor	March 2017

8.2 WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee performed their supervision duties diligently and protected the interest of the Company and the Shareholders in accordance with the Company Law, the Articles of Association, the Rules of Procedure of the Supervisory Committee and relevant laws and regulations, which included the following aspects:

8.2.1 Attendance of Board Meetings and Significant Meetings

During the Reporting Period, the Supervisory Committee observed the Board meetings and important economic work meetings to supervise over the general meeting and the Board's decision-making process and the compliance, understand directly and indirectly the operation status of the Company, and gave their opinions and proposals whenever appropriate, so as to promote the healthy development of the Company and protect the interest of the Shareholders.

8.2.2 Meetings of the Supervisory Committee

Attendance of members of the Supervisory Committee is recorded as follows:

Name	**Position**	**Meetings attended/ eligible for attending**	**Attendance rate**
Ms. Qu Mei	Chairperson of the Supervisory Committee and shareholder representative Supervisor	4/4	100%
Mr. Xu Ke	Shareholder representative Supervisor	2/4	50%
Ms. Huang Mei	Employee representative Supervisor	3/4	75%
Ms. Xiang Min	Employee representative Supervisor	4/4	100%
Mr. Zhu Yuchuan	Employee representative Supervisor	4/4	100%
Mr. Xuan Ming	External Supervisor	4/4	100%
Mr. Xiong Hua	External Supervisor	4/4	100%

8.2.3 Supervision Over Operation

During the Reporting Period, the Supervisory Committee convened the meetings of Supervisory Committee to consider and approve the annual report for the year ended 31 December 2017, interim report and results announcement for the six months ended 30 June 2018 and other proposals, as so to conduct supervision over operating activities.

8.2.4 Supervision Over Financial Operation

During the Reporting Period, the Supervisory Committee conducted supervision over financial operation of the Company by inquiring upon and reviewing the financial reports on a regular basis.

8.2.5 Supervision Over Performance of Duties by Directors and Senior Management

During the Reporting Period, the Supervisory Committee paid attention to the Company's legal operation, reviewed the Company's risk management, internal control system construction and connected transactions, and focused on the diligence and duties of the Company's Directors and senior management personnel through meetings, talks and review of materials to prevent behavior that could cause damage to the interest of company.

8.2.6 Independent Opinions on Major Issues of the Company

During the Reporting Period, the Supervisory Committee put forward independent opinions on major issues of the Company according to their duties, held a special meeting, reviewed the overall plan for the reform of the Company's official car system, made recommendations on the actual situation, and supervised the implementation.

8.2.7 Strengthen the Internal Governance of the Board of Supervisors

During the Reporting Period, the Supervisory Committee further perfected the Rules of Procedures for the Supervisory Committee (《監事會議事規則》) to better play the supervisory role of the Supervisory Committee and improve its performance.

8.3 BASIC EVALUATION ON THE OPERATION MANAGEMENT AND OPERATING RESULTS OF THE COMPANY IN 2018

8.3.1 Evaluation on the work of the Board

Aiming at protecting the interest of the Company and the Shareholders in practice, the Supervisory Committee performed its supervisory duties diligently. The Supervisory Committee observed the Board meetings for 2018 and confirmed the contents of the meetings convened by way of communication. The Supervisory Committee considers that the convening of Board meeting, the qualification of participants and the decision-making procedures met requirements of the Company Law, the Securities Law and the Articles of Association, and that the resolutions made were valid and effective. Effectively supervised over the implementation of various resolutions by the Board to ensure the execution of the resolutions; in the meantime, the Board duly executed all resolutions approved by the general meeting, exercised its rights granted under the law and by the Shareholders. There was no behavior that undermined the interest of the Company and the Shareholders; there was no operation that was in breach of rules and regulations.

8.3.2 Evaluation on the work of the operation team

The Supervisory Committee conducted supervision on the production and operation activities of the Company during its term of office, and considers that, the operation team of the Company has diligently performed its duties, executed all the resolutions of the Board conscientiously, and had no irregularity in the course of operation. During the Reporting Period, the operation team of the Company, under the brilliant leadership of the Board, focused on the operating guideline of "transforming work style, enhancing efficiency, anchoring on execution and guaranteeing quality", deepened the exploration of local sewage business, seized every opportunity to expand the water supply and sewage treatment market presence in the surrounding areas. Overcoming all the difficulties in its way and forging ahead vigorously, the operation team made remarkable achievements, and led the corporate management to a new level.

8.4 SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE MATTERS OF THE COMPANY IN 2018

8.4.1 Evaluation on legal compliance of the Company's operations

In accordance with laws and regulations of the State and the Articles of Association and after review, the Supervisory Committee is in the position that: decision-making procedures of the Company during the Reporting Period were in compliance with laws; the Company has established a complete and effective internal control system; Directors and senior management of the Company did not have any behavior that was in breach of laws and regulations or undermined the interest of the Company when performing their duties. The general meetings and Board meetings were convened in accordance with procedures required by relevant laws and regulations and the Articles of Association, and relevant resolutions were valid and effective.

Members of the Board and senior management of the Company performed their duties faithfully and diligently in accordance with laws and regulations of the State and the Articles of Association. The Board fully implemented all resolutions approved by the general meeting, and the senior management duly executed resolutions of the Board. During the Reporting Period, the Company and senior management of the Company did not have any behavior that was in breach of laws and regulations and the Articles of Association and that has undermined the interest of the Company and Shareholders when performing their duties and exercising their power and rights.

8.4.2 Evaluation on financial operation

Having carefully review on the financial system, internal control system and the financial position of the Company during the Reporting Period, the Supervisory Committee believes that the existing internal control system on financial accounting is complete, the Company has a sound financial positions, high-quality assets, and true and accurate recognition and measurement of income, expenses and profit. Deloitte Touche Tohmatsu, the international auditor, has issued an audit report with unqualified opinion on the financial report of the Company for 2018, judging that accounting report of the Company met requirements of Accounting Standard for Business Enterprise and gave a true, accurate and complete view of the Company's financial position, operating results and cash flows.

8.4.3 Evaluation on related-party transactions

Related-party transactions between the Company and related parties are all subject to the approval by regulations. and fulfilled their disclosure duties in a timely manner. There was no insider trading and behavior that undermined the interest of the Company and Shareholders during considering and reviewing the related-party transactions of the year. In the course of consideration and voting of the related-party transactions above, the Supervisory Committee oversaw the abstaining from voting by connected Directors. As such, the Supervisory Committee is of its opinion that the related-party transactions of the Company were fair, just and open, and the pricing basis is sufficient, did not undermine the interest of the Company (particularly the interest of minority shareholders).

8.4.4 Evaluation on internal control and risk management

Having reviewed the internal control and risk management system of the Company during the Reporting Period, the Supervisory Committee believes that the Company has built a complete internal control and risk management system and has had an effective execution, and that the Company has an appropriate deployment for the internal audit department and relevant personnel, which plays the role of supervising the execution of internal control.

Members of the Supervisory Committee will improve their performance through self-development, firmly implement the Company's strategic policies, perform its duties within the scope granted by laws and regulations of the State and the Articles of Association; actively participate in the discussion and decision-making of the Company's strategic decisions, as well as participate in the supervision and management in its regular operation, strengthen supervision and inspection on directors and executives of the company. The Supervisory Committee will enhance supervision on investment, related-party transactions and other significant events, and propel the building of modern enterprise operation mechanism. Promote the improvement of corporate governance structure and strive to safeguard the legitimate rights and interests of shareholders and companies.

Qu Mei
Chairperson of the Supervisory Committee

Luzhou, the PRC
28 March 2019

CHAPTER IX CORPORATE GOVERNANCE REPORT

9.1 COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interest of Shareholders and enhancing corporate value. The Board believes that good corporate governance is one of the important factors leading to the success of the Company and balancing the interests of the Shareholders, customers and employees.

The Company has adopted all the code provisions in the Corporate Governance Code, built and improved the corporate governance structure in accordance with relevant requirements, and established a series of corporate governance systems.

According to the code provisions A.4.2 of the Corporate Governance Code, each director (including directors with a specified term) shall be subject to retirement by rotation, at least once every three years. According to the Articles of Association, the Directors (including non-executive Directors and independent non-executive Directors) shall serve for a term of three years and shall be re-elected upon expiration of their term of office. The term of the first session of the Board, Supervisory Committee and senior management of the Company expired in December 2018. Since the nomination procedures for some Directors who are subject to Shareholders' nomination have not been completed and the successors of some of the Directors are still not determined, the Company failed to complete the re-election work before the expiration of the first session of Board. Before the completion of the re-election, the current Directors and Supervisors and senior management will continue to perform their duties.

Except for the code provision A.4.2, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code.

The Board will review the Company's corporate governance practices and operations from time to time in order to comply with the relevant requirements of the Listing Rules.

9.2 MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors, and all Directors and Supervisors have confirmed that they have fully complied with the requirements set out in the Model Code during the Reporting Period.

9.3 BOARD OF DIRECTORS

Composition of the Board

The Board comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors.

Pursuant to Rule 19A.54 of the Listing Rules, we entered into contracts with all Directors in relation to, inter alia, compliance with laws and regulations, the Articles of Association and arbitration clauses. We have not signed and do not intend to sign any service contract with any Directors or Supervisors that is not determinable by the employer within one year without paying any compensation (other than statutory compensation).

There are no relationship between the Directors, Supervisors and senior management of the Company, including financial, business, family or other material connections.

Details of the Directors during the Reporting Period and as at the date of this annual report are set out in the "Directors' Report" on page 54 of this annual report.

9.4 DUTIES AND POWERS OF THE BOARD

The Board reports to the general meeting and is responsible for implementation of resolutions of the general meeting. The functions and powers of the Board are set out in the Articles of Association, which include: to convene general meetings, to implement the resolutions of the general meeting, to decide on the business plans and investment plans of the Company, to formulate the plans for annual financial budgets and final accounts, profit distribution plans and plans for the increase or reduction of the registered capital, to decide on the establishment of the Company's management organization, to appoint or remove the general manager, the deputy general manager and other members of senior management, to formulate the basic management systems of the Company and to decide on the establishment of the Company's internal management organization.

9.5 CORPORATE GOVERNANCE FUNCTIONS OF THE BOARD

The Board is responsible for formulating corporate governance policies and fulfilling corporate governance obligations, which include, among others: (1) to develop and review the Company's corporate governance system and practices and to make recommendations accordingly; (2) to review and monitor the training and continuous professional development of Directors and senior management; (3) to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements; (4) to review and supervise the compliance of the Directors and employees of the Company and its subsidiaries with the required standards as set out in the Model Code; and (5) to review the compliance with the Corporate Governance Code of the Company and disclose in the corporate governance report prepared in accordance with requirements of the Listing Rules.

Before the publication of this annual report, the Board reviewed the chapter of corporate governance and the section of Corporate Governance Report, and considered that this part of the annual report meets the relevant requirements of the Listing Rules.

9.6 DUTIES AND POWERS OF THE MANAGEMENT

The Board has authorized the management to be in charge of day-to-day business operation and management, and the management is responsible for implementation of resolutions of the Board and the day-to-day operation and management of the Company. According to the Articles of Association, the functions and powers of the senior management include: to draft the business plans and investment plans of the Company, to draft plans for the establishment of internal management organization, to draft basic management system of the Company and to formulate specific rules of the Company. The management team reports to the Board on a regular basis and communicates with the Board when necessary.

9.7 INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company complies with the requirement of the Listing Rules, which states that there shall be at least three independent non-executive Directors (accounting for at least one third of the Board) and that at least one independent non-executive Director has appropriate professional qualification or expertise of accounting or relevant financial management.

Each of independent non-executive Directors has entered into the letter of appointment with the Company, with a term of three years, but subject to retirement by rotation and re-election in accordance with the Articles of Association.

The Company has received annual confirmation of independence from each of independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company is of the opinion that all independent non-executive Directors are independent parties, and believes that they are able to provide independent advice on the business strategy, operating results and management of the Company, therefore protecting the interest of the Company and its Shareholders.

9.8 CHAIRMAN AND GENERAL MANAGER

The duties of the Chairman of the Board and the general manager are separate and held by different persons, and have been clearly defined in the Articles of Association.

The Chairman of the Board is mainly responsible for the overall operation of the Board, the Company's strategies, development plans, and the making of material decisions. Executive Director Mr. Zhang Qi holds the post of Chairman. The general manager is responsible for the day-to-day business management of the Company, and the post is assumed by executive Director Mr. Liao Xingyue. The Chairman of the Board is elected by more than a half of all Directors, and the general manager is nominated and appointed by the Board.

The Chairman of the Board places great emphasis on the communication with non-executive Directors (including independent non-executive Directors) and meets with non-executive Directors (including independent non-executive Directors) at least once a year in the absence of executive Directors to discuss about the Company's development strategies, corporate governance, and operation management.

The Chairman of the Board encourages open and active discussions. Directors may speak freely at the Board meetings and actively participate in the discussions of significant decision-makings of the Company.

9.9 NOMINATION, APPOINTMENT AND REMOVAL OF DIRECTORS

According to the Articles of Association, Directors shall be elected at the Shareholders' general meeting for a term of three (3) years. At the expiry of a Director's term, the Director may stand for re-election and reappointment for further term. Subject to the compliance of the provisions of the relevant laws and administrative regulations, the general meeting of the Shareholders may dismiss by ordinary resolution any Directors of whom the term of office has not expired (the claim for compensation under any contracts shall however be not affected).

The term of each non-executive director and independent non-executive Director is the same as that of other Directors. Upon expiration of the term of office, the re-election may be made, but the term of re-election shall not exceed six (6) years.

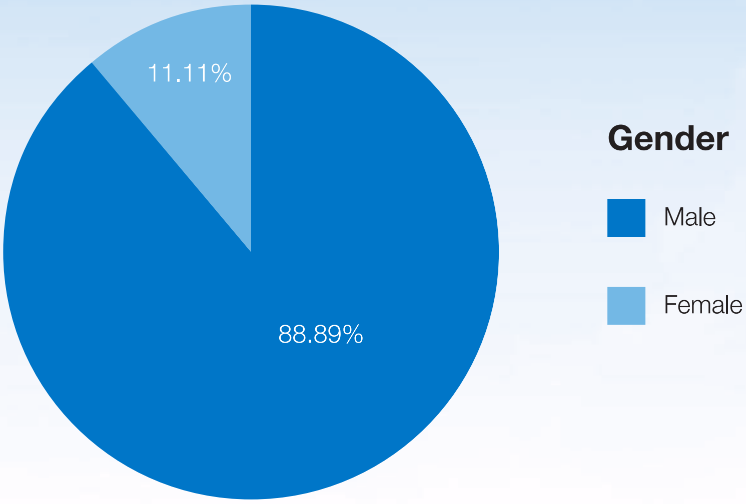
The procedures for the appointment, re-election and removal of directors are set out in the Articles of Association. The remuneration committee nominated by the Board carefully considers the qualifications and experience of director candidates and recommends them to the Board for consideration. After the Board passes the nomination resolution in relation to the candidate, it is proposed to the general meeting to elect the relevant candidates for approval. The new Directors and independent non-executive Directors have the same term of office as the other Directors of the Company. When the current Board expires, the other members of the Board will take over the re-election of the Shareholders' meeting, and will not be individually arranged to accept the Shareholders' election at the first general meeting after the appointment.

9.10 BOARD DIVERSITY POLICY

Pursuant to the Rule 13.92 of the Listing Rules, the Board has adopted a board diversity policy. It sets out the ways to achieve and maintain the diversity of the Board in order to optimize the staff structure of the Board. The Company recognises and embraces the benefits of diversity of Board members, and the Company will ensure that the Board strikes a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. All Board appointments will continue to be made on a merit basis, and selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience, skills, knowledge and office term. The decision will ultimately be based on the strengths of the personnel and the contributions that can be made to the Board.

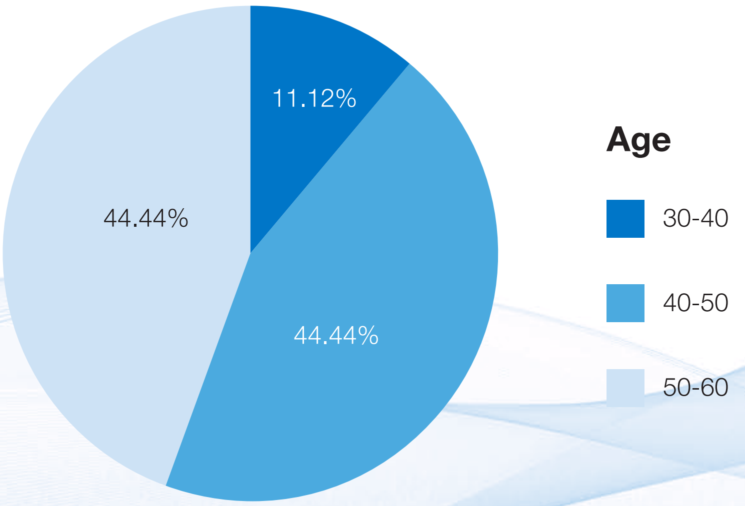
9.10.1 Gender

Among the Board members, there are 1 female member and 8 male members, accounting for 11.11% and 88.89% of the total number respectively.



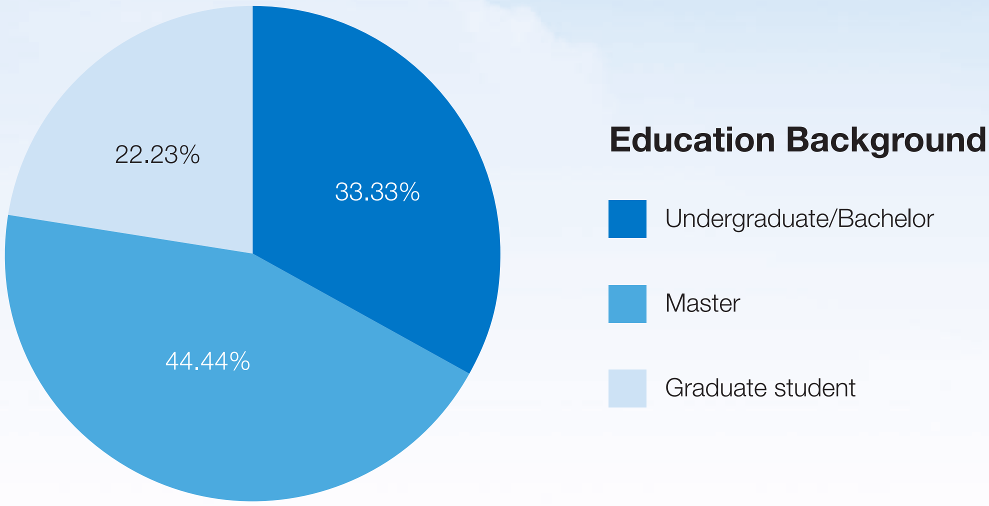
9.10.2 Age

Among the Board members, there are 1 member aged 30–40, 4 members aged 40–50, and 4 members aged 50–60, accounting for 11.11%, 44.44% and 44.44% of the total number respectively.



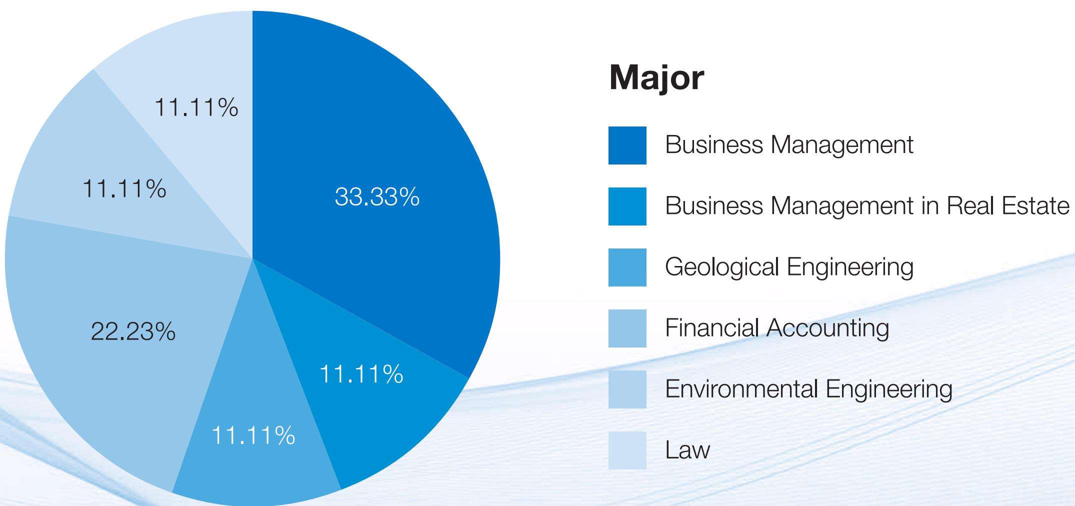
9.10.3 Cultural and Educational Background

Among the Board members, there are 3 members holding bachelor's degree, 4 members holding master's degree and 2 members holding doctor's degree, accounting for 33.33%, 44.44% and 22.23% of the total number respectively.



9.10.4 Major

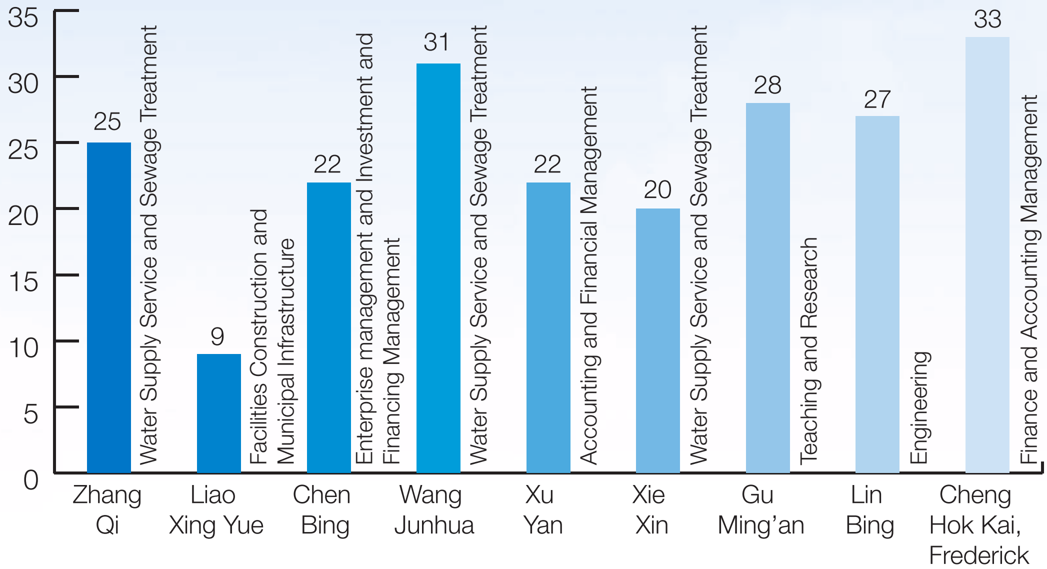
Among the Board members, there are 3 members majoring in business management, 1 member majoring in business management in real estate, 1 member majoring in geological engineering, 2 members majoring in financial accounting, 1 member majoring in law, and 1 member majoring environmental engineering, accounting for 33.33%, 11.11%, 11.11%, 22.23%, 11.11% and 11.11% of the total number respectively.



9.10.5 Management Experience

The Board members have rich experience in wastewater treatment and water supply services, municipal infrastructure planning, investment, construction and management, corporate management, financial management, teaching and research, engineering, business, and finance and accounting management.

Years of management experience



9.11 OPERATION OF THE BOARD

Board meetings are divided into regular meetings and extraordinary meetings. The Board shall hold at least two regular meetings in each of the first and second half of each year. The meeting shall be convened by the Chairman of the Board. According to the Articles of Association, Shareholders representing more than one tenth of the voting rights, the Supervisory Committee, or the Chairman of the Board, more than one third of the Directors, more than two independent non-executive Directors or the general manager propose to convene an extraordinary meeting of the Board, the Chairman of the Board shall convene the Board meeting within 10 days after receiving the proposal.

The Board holds regular meetings and extraordinary meetings. The office of the Board shall, fourteen days prior to the regular meeting and five days before the extraordinary meeting, send the written notice on the meeting sealed by the office of the Board to all Directors, Supervisors, the general manager and the secretary to the Board by hand, by mail or by fax. If the notice is sent by non-direct means, a confirmation should be obtained by telephone and be recorded accordingly. If an interim meeting of the Board needs to be held as soon as possible due to urgent circumstances, a meeting notice may be given at any time by telephone or other oral method, provided that the convener gives an explanation thereof at the meeting and the same is included in the meeting minutes.

9.12 ATTENDANCE OF DIRECTORS AT BOARD MEETINGS AND THE GENERAL MEETINGS

During the Reporting Period, the Board held 9 meetings, and the attendance of Directors are as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Zhang Qi	Executive Director and Chairman of the Board	9/9	100%
Mr. Liao Xingyue	Executive Director and General manager	9/9	100%
Mr. Wang Junhua	Executive Director and Deputy general manager	8/9	88.9%
Mr. Chen Bing	Non-executive Director	9/9	100%
Ms. Xu Yan	Non-executive Director	9/9	100%
Mr. Xie Xin	Non-executive Director	8/9	88.9%
Mr. Gu Ming'an	Independent non-executive Director	8/9	88.9%
Mr. Lin Bing	Independent non-executive Director	7/9	77.8%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	8/9	88.9%

During the Reporting Period, 2 general meetings were held, and the attendance of Directors are as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Zhang Qi	Executive Director and Chairman of the Board	2/2	100%
Mr. Liao Xingyue	Executive Director and General manager	2/2	100%
Mr. Wang Junhua	Executive Director and Deputy general manager	2/2	100%
Mr. Chen Bing	Non-executive Director	2/2	100%
Ms. Xu Yan	Non-executive Director	2/2	100%
Mr. Xie Xin	Non-executive Director	1/2	50%
Mr. Gu Ming'an	Independent non-executive Director	2/2	100%
Mr. Lin Bing	Independent non-executive Director	2/2	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	100%

9.13 PROVISION AND USE OF INFORMATION ABOUT THE BOARD MEETING

The agenda of the regular meeting of the Board and the relevant meeting documents shall be sent to all Directors three days before the date of the meeting so that the Directors can make a decision in the light of the relevant information. All Directors have the right to access the Board meeting documents and related information. The information provided by the management shall be complete and reliable. The Directors may make further inquiries if needed, and the Board and individual Directors shall have independent access to the senior management.

9.14 TRAINING OF DIRECTORS

The Directors are able to make appropriate contributions to the Board by participating in the training programs to improve and upgrade their own knowledge and skills. During the Reporting Period, the Company arranged for the Directors, Supervisors and relevant senior management to attend the lecture on "Discloseable Transaction" by the overseas lawyers of the Company, and arranged for the partial Directors, Supervisors to attend the lectures hosted by the Hong Kong Institute of Chartered Secretaries, thereby enhancing its management's understanding on the Listing Rules. Mr. Zhang Qi, Mr. Liao Xingyue, Mr. Wang Junhua, Mr. Chen Bing, Ms. Xu Yan, Mr. Xie Xin, Mr. Gu Ming'an, Mr. Lin Bing and Mr. Cheng Hok Kai, Frederick have participated in such training and provided relevant records to the Company.

9.15 COMMITTEES UNDER THE BOARD

The Board has delegated a number of functions to corresponding committees. The Company has set up three special Board committees, namely, the Strategy Committee, the Nomination and Remuneration Committee and the Audit Committee.

9.15.1 Strategy Committee

The Strategy Committee consists of the non-executive Director Mr. Chen Bing, executive Director Mr. Zhang Qi and independent non-executive Director Mr. Lin Bing, with Mr. Chen Bing serving as the chairperson of the committee.

The primary responsibilities of Strategy Committee are to formulate the operation goals and long-term development strategies of the Company, making proposals on major events and supervising the implementation of annual operating plans and proposals.

During the Reporting Period, the Strategy Committee held one meeting, considering and approving resolutions in relation to the strategic development plan, the annual business plan and the annual capital plan of the Company.

Attendance of members of the committee is recorded as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Chen Bing	Non-executive Director	1/1	100%
Mr. Zhang Qi	Executive Director and Chairman of the Board	1/1	100%
Mr. Lin Bing	Executive Director and Deputy general manager	1/1	100%

9.15.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of an independent non-executive Director Mr. Gu Ming'an, an independent non-executive Director Mr. Cheng Hok Kai, Frederick, and an executive Director Mr. Zhang Qi, with Mr. Gu Ming'an serving as the chairperson of the committee.

The main duties of the Nomination and Remuneration committee are to provide recommendations to the Board on the appointment and removal of directors and senior management, establish remuneration policies for the overall remuneration policy and structure of directors and senior management and for the establishment of formal and transparent procedures, provide recommendations to the Board, review the corporate policies and objectives set by the Board and approve management's compensation proposals, assess the performance of executive directors and approve the terms of service contract of executive directors and provide recommendations to the Board on employee benefit arrangements, as well as to provide recommendations to Board on the remuneration packages of individual executive directors and senior management.

During the Reporting Period, the Nomination and Remuneration Committee held two meetings, considering and approving the resolution in relation to the independence of independent non-executive Directors and discussing about resolutions in relation to remuneration policies for Directors, Supervisors and senior management and the structure of the Board, remuneration management policy and the optimization plan.

Attendance of members of the committee is recorded as follows:

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Gu Ming'an	Independent non-executive Director	2/2	100%
Mr. Zhang Qi	Executive Director and Chairman of the Board	2/2	100%
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	2/2	100%

9.15.3 Audit Committee

The Audit Committee consists of an independent non-executive Director Mr. Cheng Hok Kai, Frederick, and an independent non-executive Director Mr. Gu Ming'an and a non-executive Director Mr. Xie Xin, with Mr. Cheng Hok Kai, Frederick serving as the chairperson of the committee.

The primary responsibilities of our Audit Committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters.

During the Reporting Period, the Audit Committee held 3 meetings, in which, the Auditor's Report 2017, the Interim Review Plan for 2018 and the Review Report, the Audit Work Plan for 2018 were heard; and the Auditor's Report, Annual Results, the Annual Report for 2017, Auditor's Interim Report for 2018, the Interim Consolidated Financial Statements, the Interim Results announcement and the Interim Report, the Company's Risk Management and the Internal Control Report were considered and adopted, concerns about possible improprieties in financial reporting, internal control or other matters were raised, and the audit work during the Reporting Period were arranged.

Attendance of members of the committee is recorded as follows

Name	Position	Meetings attended/ eligible for attending	Attendance rate
Mr. Cheng Hok Kai, Frederick	Independent non-executive Director	3/3	100%
Mr. Gu Ming'an	Independent non-executive Director	3/3	100%
Mr. Xie Xin	Non-executive Director	3/3	100%

9.16 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established formal and transparent procedures for the formulation of the remuneration policy for the senior management of the Group.

Details of the remuneration of Directors during the Reporting Period are set out in Note 13 to the consolidated financial statements.

In accordance with B.1.5 of the Corporate Governance Code, the following table sets out the remuneration paid to senior management of the Company (excluding Directors) categorized by range during the Reporting Period in this annual report:

Remuneration range (RMB'000)	Number of people
500–600	2
400–500	0
300–400	2
Below 100	0

9.17 DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability to operate as a going concern. The Directors confirm that they are aware of the responsibility for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2018.

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 Shareholders for approval.

9.18 RIGHTS OF SHAREHOLDERS

According to the Articles of Association, two or more Shareholders who collectively hold more than 10% (inclusive) of the voting Shares at the proposed extraordinary general meeting or Shareholders' class meeting have the right to require the Board to convene an extraordinary general meeting or Shareholders' class meeting in accordance with the following procedures:

(1) to sign one or more written requests of the same format and content to propose the Board to convene a Shareholders' class meeting and clarify the subject matter of the meeting. The Board shall convene a Shareholders' class meeting as soon as possible after receiving the aforesaid written request. The percentage of shares mentioned above is calculated on the basis of the number of Shares on the date of the written request from the Shareholders.

(2) if the Board has not issued a notice of convening a meeting within thirty days after receipt of the foregoing written request, the Shareholder who makes the request may, on its own, convene the meeting within four months of the receipt of the request by the Board. The related procedures for convening shall be as close as possible to that of the Board.

Shareholders have the right to submit ex tempore motions to the general meeting. According to the Articles of Association, when a general meeting is convened by the Company, shareholders who individually or collective hold more than 3% (inclusive) of voting shares of the Company shall be entitled to put forward ex tempore motions to the Company. The Company shall include matters in the ex tempore motions that fall within the scope of functions and powers of the general meeting into the agenda.

Shareholders have the right to put inquiries. The Company now lists the following communication information to facilitate inquiries on matters about which Shareholders are concerned, and the Company will respond to these inquiries in an appropriate way and in a timely manner:

Address:	No. 16, Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC
Telephone number:	+86 830 3194768
Company website:	www.lzss.com
E-mail address:	lzxlwaterstock@lzss.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written request, notice or statement, or enquiry (as the case may be) to the above address and provide its (their) full name(s), contact detail(s) and identification(s) for the Company to reply. Shareholders' information may be disclosed as required by the law.

9.19 COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Company believes that it is vital to maintain effective communication with the Shareholders as a way to promote investor relations and deepen the investors' understanding on the Group's business performance and strategy. The Company also understands the importance of maintaining the transparency of and providing timely disclosure of the Company's information, which will enable the Shareholders and investors to make the best investment decisions.

The general meeting of the Company provides a platform for direct dialogue between the Board and the Shareholders.

9.20 RISK MANAGEMENT AND INTERNAL CONTROL

The Board believes that it is its responsibility to develop, maintain and evaluate a sound and effective risk management and internal control system. The Group has established an enterprise risk management structure to effectively implement risk management and internal control.

The Company's risk management and internal control systems are designed to manage, rather than eliminate the risk of failure to achieve business objectives, and may only make reasonable, but not absolute assurances that there will be no material misstatement or losses.

Effective risk management exists at all levels of the Group. The Group's risk management structure includes the Board, the audit committee, the management, the internal audit department and employees. The Board is responsible for the risk management and internal control systems and is responsible for maintaining the effectiveness of these systems to protect shareholder investments and the Company's assets.

The Board also reviews the effectiveness of the Company's finance, compliance, risk management and internal controls through the audit committee, including the Company's resources and the staff qualifications and experience in the accounting and financial reporting functions, and the training courses accepted by staff and the budget.

Employees in different business units shall identify and manage risks in their daily operations, while management is responsible for identifying and assessing risks and formulating appropriate measures at the policy level.

The internal audit department is the most important department of risk management and internal control, which is guided by problems and risks and implements internal audit supervision, and tracks the implementation of rectification of problems found in audits.

Risk management procedures include defining risk coverage, identifying risks, assessing identified risks, developing relevant measures to mitigate risks, reviewing implementation and changes, and continually improving. The Company also establishes internal and third-party inspection procedures using the quality management system to identify, assess and manage significant risks through annual review of processes, systems implementation and staffing in the Company's operations, finance and production processes and review the effectiveness of risk management and internal control systems through third-party inspections to effectively control the risks within the effective range.

The Board conducts a review on the effectiveness of the Company's risk management and internal control systems at least once annually. The internal audit department has conducted an independent review of the Company's 2018 annual risk management and internal control systems to assess its effectiveness. The report of the internal control review has been submitted to the Audit Committee for confirmation.

The Company has formulated an inside information policy, pursuant to which, the Company shall conduct a review at least once a year to ensure the policy complied with the latest regulatory requirements. According to this policy, the Group shall disclose inside information to the public as soon as reasonably practicable, unless such information is within the scope of safe harbor as provided in the SFO. The Group will ensure to keep relevant information in strict confidential before fully disclosing such information to the public.

During the Reporting Period, the Board approved the review and considered that the Company's risk management and internal control systems are effective and sufficient.

9.21 INTERNATIONAL AUDITOR AND REMUNERATION OF INTERNATIONAL AUDITOR

A statement by the international auditor of the Company regarding its reporting obligations under the consolidated financial statements is set out in the “Independent Auditor’s Report” on Pages 128 to 134 of this annual report.

The following table sets out the remuneration paid/payable to the Company’s international auditor, Deloitte Touche Tohmatsu, during the Reporting Period:

Charges for services	**Amount** *(RMB’000)*
Annual audit services	1,850
Interim financial review services	500
Other services	1,280
Total charges	3,630

9.22 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As at the Reporitng Period, the Company did not make any amendments to the Articles of Association.

9.23 JOINT COMPANY SECRETARIES

Mr. Chen Yongzhong and Ms. Ng Wing Shan serve as the joint company secretaries of the Company. Mr. Chen Yongzhong is the principal contact of the Company. Ms. Ng is the assistant vice president of SWCS Corporate Service Group (Hong Kong) Limited, and assists Mr. Chen in fulfilling his duties as joint company secretaries of the Company. Mr. Chen and Ms. Ng participated in training not less than 15 hours during the Reporting Period. During the Reporting Period, the Company has already arranged relevant professional training for Mr. Chen Yongzhong to ensure compliance with Rule 3.29 of the Listing Rules.

9.24 REGULATORY REVIEW

The Company was not subject to administrative penalties for violating national administrative regulations during the Reporting Period.

9.25 LITIGATION AND ARBITRATION

During the Reporting Period, the Company had not been involved in any material legal proceedings nor arbitration, and the Directors are not aware of legal proceedings or claims of material importance pending or threatened against the Group.

CHAPTER X ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The Company believes that healthy environmental, social and governance performance has a crucial influence on our future sustainable growth, achieving our long-term objectives, and bringing long-term interests to the shareholders and more stakeholders. The Company pays close attention to the performance of social responsibility and sustainable development of the Company while improving the steady and strong financial performance.

The Board is responsible for the environmental, social, and governance strategy and report of the Company. This ESG Report (**this Report**) is prepared by the Company pursuant to the Environmental, Social and Governance (**ESG**) Reporting Guide in Appendix 27 of the Listing Rules and with reference to the GRI Sustainability Reporting Standards issued by the Global Reporting Initiative (GRI Standard). This report covers the primary source of the Company's operating revenue – business revenue from water supply and sewage treatment business according to the materiality principle, covering the scope in connection with ESG from 1 January to 31 December 2018 (**Reporting Period** or **FY2018**). The Company selects material ESG policies related through communication with stakeholders, importance identification and evaluation, and incorporates them into this Report.

This Report covers the Group. To facilitate ease of presentation, the terms "the Company" and "we" in this Report refer to the Group.

Since the acquisition of the subsidiaries of the Company, Xinglu Water (Group) Weiyuan Qingxi Water Co., Ltd. and Weiyuan Urban Water Supply and Drainage Installation Engineering, were completed in September 2018, the statistical dimension of some data has not been unified with the Company. Therefore, the data of the above subsidiaries are not included in the statistical data disclosed in Chapter III of this Report.

ESG Management

The Company knows deeply that healthy development of the Company is closely connected with harmonious and sustainable development between the environment and the society, and focuses on the work concerning environment, social, and governance. The Board evaluating and determining the company's ESG-related risks; ensuring that effective ESG risk management and internal control systems are in place; and review of the performance of the Company periodically. Data disclosed in this Report has been approved by the Board.

The Company established an ESG working group to determine the fulfillment of duties for ESG management and objectives, appointed the full-time personnel for communication about matters concerning ESG, data collection, and preparation of the report, reported to the executive committee periodically to assist the Company to evaluate and determine the appropriateness and effectiveness of ESG risk management and internal control system.

The Company continued to improve the ESG management process and the environment, social and governance guidelines and strategies. The Company established the environment, social and governance indicator system, established monthly submission system for important topics. The Company held the general manager office meeting and the party committee meeting periodically to discuss important topics of the Company concerning the society and environment; and established a ledger to track the execution of the work concerning environment, social and governance.

To strengthen the environment, social, and governance work of the Company and its subsidiaries, the Company invited a third party institution to carry out environment, social, and government trainings, so as to enhance related personnel's expertise and skills on the environment, social, and governance work.

- ## Stakeholders Communication

  The Company is dedicated to maintain high-level enterprise governance, strives to protect the rights and interests of stakeholders and improves the enterprise value. The Board believes that excellent enterprise governance is one of the factors leading to the success of the Company and balancing the interest relationship among the shareholders, clients, and employees.

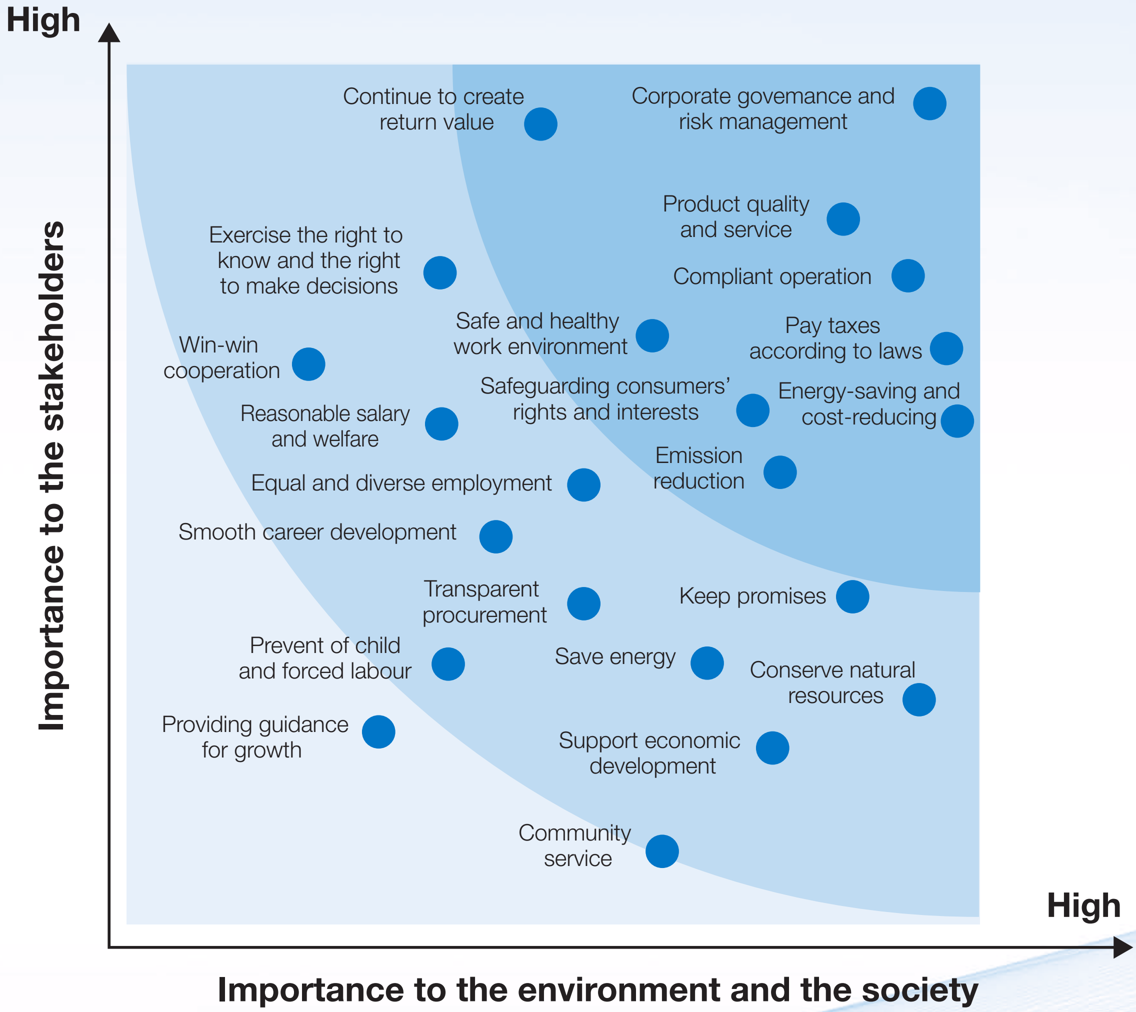
  The Company believes that keeping effective communication with the stakeholders is crucial to promote the investor relation and deepen the understanding of the performance and strategy of the Company. The Company also understands the importance of keeping the transparency of data of the Company and disclosure data of the Company at due course, which enables shareholders and investors to make the best investment decision.

  The Company kept the communication with stakeholders (including shareholders, customers, partners, employees, community, etc.) during the year, and listened to the demands and appeals of the stakeholders, and made responses to the opinions of the stakeholders in a timely manner through diversified channels, including the general meeting. Collating and preparing stakeholders communication form from the perspective of sustainable development, the Company laid a foundation for identification of material topics of the Company.

Stakeholders	Topics	Channels of Communication
Shareholders and investors	• Continue to return value • Corporate governance and risk management • Exercise the right to know and right to make decision	• General meeting • Periodic reports and announcements • Investor communication meetings • Results presentation
Government and society	• Compliant operation • Pay taxes according to laws • Energy saving and cost reduction • Community public service • Support economic development	• Daily communication • Information bulletin • Site visit • Government and enterprise cooperation • Government review • Volunteer services • Public charity activities
Customers	• Product quality and service • Protection of consumers' rights and interests	• Daily service and communication • Portals, WeChat official account, etc. • Customer service hotline • Customer forum
Employees	• Equal and diversified employment • Reasonable salary and welfare • Smooth development path • Safety and healthy working environment • Preventing child labor and forced labor	• Employment contract • Consultation • Career development communication mechanism • Employee assistance program • Employee representative congress
Suppliers and business partners	• Transparent procurement • Win-win cooperation • Keeping promises	• Open tendering • Project cooperation • Technical exchange • Contract and agreement
Environment	• Emission reduction • Energy saving • Protecting natural resources	• Environmental impact assessment • Environmental information disclosure • Public investigation on project and environmental impact • Public benefit activity for environmental protection • Communication with environmental protection organization

- Communication with Environmental Protection Organization

With respect to topics concerning the environmental, social, and governance, the Company, in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules and the Articles of Association, communicated with stakeholders about practices of the Company and evaluated and screened important environmental, social, and governance matters concerning business of the Company from the perspective of importance of the topics to the stakeholders and to the environment and society to form materiality matrix, as the focus of ESG of the Company and the basis of disclosure.



ANTI-CORRUPTION AND UPHOLD INTEGRITY

The Company attaches great importance to anti-corruption work, strictly complies with relevant national laws and regulations about anti-corruption and anti-bribery such as the Company Law and the Anti-Money Laundering Law of the People's Republic of China, and formulated a number of regulations, such as the Implementation Measures for Preventing Illegal Works, the Leader and Cadres Honest Conversation System, the Management Measures for Engineering Project Supervision, the Management Measures for Bidding Supervision, the Management Measures for Bidding for Engineering Project, the Management Measures for Construction Cost Audit, the Management Measures for Construction Project, the Interim Measures for Decision Making for Major Events, the Interim Measures for Decision Making for Arrangement of Major Events, the Interim Measures for Decision Making for Important Personnel Appointment and Removal, and the Interim Measures for Management of Use of Large Sum of Money, in order to strengthen the supervision and restriction of each step of the whole process, enhance the implementation of the honest mechanism and intensify anti-corruption from the source. The Company has been continuously improving and developing the system of anti-corruption and disciplinary supervision by setting up disciplinary inspection committee, disciplinary supervision office under the political department for supervising and procuring the implementation of anti-corruption for each department of the Company.

In addition, by setting up a whistle-blowing mailbox and reporting hotline, the Company is able to collect reports and complaints from the public, and hence imposing greater supervision from the public.

The Company actively carries out publicity and education activities for anti-corruption to strengthen the construction of party conduct and clean and honest administration. On the one hand, the party committee of the Company held the party committee center group study meeting every month for studying laws and regulations on clean and honest administration and relevant typical cases, to which members of the party committee of the Company, members of the leading group, members of the disciplinary inspection commission and secretaries of the party branches (general branch) all attended. On the other hand, the Company organized collective honest conversation, organized collective conversation with the middle management and supervisors prior to appointment, and concluded undertaking of honesty with employees on important posts.

During the Reporting Period, the Company had no cases involving violation of laws and regulations due to corruption, commercial bribery, blackmail, fraud or money laundering.

1. Promoting Harmony between Human and Water

Adhering to the core value of "innovation and excellence as well as harmony between human and water" and the quality philosophy of "standard based and best service", the Company has been improving the product and service quality of the Company to provide sufficient, high-quality, and uninterrupted water supply for customers.

1.1 *Water Supply*

The Company produced water strictly in accordance with relevant laws and regulations, such as the Production Safety Law of the People's Republic of China, the Water Law of the People's Republic of China, the PRC Law on Prevention and Control of Water Pollution, the Environmental Protection Law of People's Republic of China, the Water Quality Standard for Drinking Water Sources, the Sanitary Standard for Drinking Water, and the Municipal Water Supply Administrative Regulations in Sichuan Province. The Company formulated management regulations such as the Administrative Measures for Water Quality, the Implementation Measures for Water Quality Inspection, the Provisions for Water Quality Inspection, and the Administrative Regulations on Health and Protection to establish the water quality management system and water quality inspection mechanism of the Company. The Company has been certified for meeting the production safety standards. In 2018, the Company continued to improve and optimize the quality, environmental, occupational health and safety management system based on the practices, issued documents of the three systems (version 2018), turned management mechanism into the power driving operation of the company, and appointed special personnel of management system promotion to make the promotion and construction of the system reach a new level.

During the Reporting Period, the daily water supply capacity of the Company increased by 73,000 tons, with total water supply of 134.222 million tons. The qualified rate of processed water and water supply quality reaches 100%.

- *Safe Water Supply*

  The Company considers product quality as the lifeline of the Company and attaches great important to raw water quality. The Company sources water from the Yangtze River. To guarantee safe water supply and prevent impact of sudden change of raw water quality on water supply, the Company worked out emergency plans and carried out trainings and exercises for the employees in response to sudden pollution of water quality of the Yangtze River in order to ensure the water quality.

- *Clean Water Production*

  The Company produces water strictly in accordance with the GB 5749–2006 Sanitary Standard for Drinking Water. The comprehensive qualified rate of supplied water quality reached 99.99% in 2018.

  The Company strives to provide clean, safe and secure water supply, and implements online water quality monitoring and field inspection during the whole process of the water production enterprise from water intaking to water production. The Company measured the turbidity, residual chlorine, and pH value of the raw water, water before filtering, filtered water, and ex-factory water with online measurement equipment during the production and sent the data back to the central control room for record. The worker on duty inspected, recorded, and checked the indicators of water quality on site every one hour; and the worker of the water quality monitoring station inspected and recorded the water quality every day to ensure safety of the water.

- *Stable Water Supply*

  The Company bears heavy responsibility for continuous and stable water supply and has been dedicated to the research and development, and promotion of new technologies and equipment and other new measures. The Company has been improving the management mode to improve its ability to ensure stable water supply.

  In 2018, Beijiao Water launched the production analysis and monitoring platform, which improved the production automation degree of the Beijiao Water Plant after its use and performed online monitoring of a series of indicators of the production sites, such as unit electricity consumption, reagent consumption, and water level, enabling review of actual production data of each area at any time, reducing the work load of employees, improving production efficiency, and further ensuring the water safety and stable water supply.

- *High-quality Services*

  Adhering to the service aim of "refreshing customer experience with heart and demonstrating harmony between human and water by act", the Company established the service philosophy of customer-oriented, and continued to improve the ability to assure water supply and the water supply service level. The Company formulated the Service Code of External Service Posts, the Management Provisions for Water Supply Service, and the Measures for Electing Star Service Personnel to regulate customer service process.

  The Company insisted on providing service with smile and formulated the Management Measures for 12345 Mayor Hotline and the Management Measures for Customer Service Hotline to improve customer satisfaction and further strengthen the management of customer service and the communication with customers. The Company has appointed special personnel for the whole process from receiving complaints of the customers to calling back the customers, forming closed-loop management from communication channels such as the mayor hotline and calling centre; and paid attention to control the time limit of call and settlement of the matters, and put forward proposals for problems found and supervised relevant department to make corrections. The Company has been improving the level of after-sales service, handling repair command and consultation of the consumers in a timely manner and improving the service level of employees by study.

1.2 Sewage Treatment

The Company, insisting on taking "water environment protection and water pollution treatment" as its own responsibility, promoted sustainable development and established a good corporate image by using high-efficient treatment technology to ensure the water quality reaching the standard, strictly in accordance with the national laws and regulations such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918–2002), the Technical Specification for Operation, Maintenance, and Safety of Municipal Wastewater Treatment Plant (CJJ60–2011), the Interim Measures for Assessment of Municipal Wastewater Treatment (JC [2017] No.143), the Opinions about Deepening Environmental Monitoring Report and Improving Environmental Monitoring Data Quality, the Regulations of Drainage Management of Sichuan Province, and the Regulation of Urban Drainage and Sewage Treatment.

During the Reporting Period, sewage treatment capacity of the Company increased by 40,000 tons, with total sewage treatment capacity of 87.3 million tons.

- *High-efficient Treatment Technology*

  The Company has been dedicated to the innovation, research and development and application of sewage treatment technology, put into experimental use of new technology, and collected experimental data for guiding the adjustment of the production and operation technologies to improve the sewage treatment efficiency.

  – The Company adjusted the technology according to its research on activated sludge and the absorbing effect of phosphate removing agent, which reduced the consumption of phosphate removing agent by about 30% without reducing the sewage treatment efficiency.

  – The Company applied the ARES ecological sewage treatment technology, which reduced carbon source consumption by more than 20% and reduced the sludge output by more than 20% on the basis of ensuring effluent quality;

  – The Company made researches on the deep total nitrogen removing technology for sewage treatment in cooperation with Sichuan University.

- *Assuring Water Quality*

  The Company has set up a high efficient management system and provided automated equipment to ensure the water quality. During the Reporting Period, the effluent quality of the sewage treatment plant of the Company reached A level of the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918–2002).

  – By establishing water quality early warning management system, the plant will adjust the production and operation parameters to ensure stable quality of the effluent when the effluent quality reaches the pre-cautious line (80% of emission standard).

  – All sites of production and operation of the Company were equipped with instruments for monitoring main production and operation parameters, such as solved oxygen, sludge concentration, and oxidation-reduction potentiometer, for reflecting the production and operation condition in real time;

  – Each branch has a laboratory for routine inspection of water quality and monitoring dosage of the equipment online, and has inflow and effluent online monitoring equipment to know the effluent quality indicators in a timely manner.

  During the Reporting Period, the Company was not involved in any action arising from violation of laws and regulations concerning product and service.

2. Guarding Clear Waters and Green Hills

As an environment-friendly corporation, the Company adheres to the safety and environmental protection concept of "livelihood and safety, prevention, and standard first", insists on the green development concept during its operation and production, actively promotes the green development of the Company, and improves the positive impact of its operation on the ecological environment.

2.1 Emissions Management

The Company stringently complies with laws and regulations such as the PRC Environmental Protection Law, the PRC Law on Prevention and Control of Air Pollution, the PRC Law on Prevention and Control of Water Pollution, the PRC Law on Prevention and Control of Environmental Pollution by Solid Waste and the Energy Conservation Law of the People's Republic of China etc. The Company minimizes the emissions of greenhouse gases and the production of various wastes through management of emissions, effective disposal of emissions, and adoption of many measures.

During the Reporting Period, the Company was not involved in any material events in relation to violations or litigation arising from violation of environmental regulations.

- *Management and reduction of greenhouse gas and exhaust*

  Water Supply Business

  The consumption of electricity for production and office is the main source of greenhouse gas emission from the water supply business of the Company. The Company actively took various measures to save energy and reduce consumption. Please refer to "2.2 Optimizing Resources Utilization" of the Report for details.

  As for exhaust emission of water supply business, disorderly discharge of chlorine during storage and chlorine-adding in the chlorine dosing rooms and chlorine repositories may only cause impact on the surroundings to a certain extent. No gas emissions including SO_2, NO_2, and PM_{10} occurred during the process of water supply because there is no fuel consumption.

The Company has taken various measures to reduce exhaust emission and mitigate the impact of exhaust on the environment;

– The Company has gradually adopted on-site preparation of ClO_2 to carry out chlorine disinfection to avoid the potential harm caused by storage and use of liquid chlorine from the source;

– The Company installs the vacuum seal-off device and absorption and treatment device in the chlorine repositories to reduce disorderly discharge of chlorine gas and prevent leakage of chlorine gas. However, if there is leakage of chlorine gas, the alarm system will start monitoring at the first tie and the automatic control system will start the chlorine gas absorption tower to absorb the chlorine and eliminate the impacts arising from the leakage.

Sewage Treatment Business

The consumption of electricity and use of fuel for production and office, and the methane gas arising from sewage treatment are the main sources of greenhouse gas emission from the sewage treatment business of the Company. The Company reduces the greenhouse emission mainly by application of energy saving technology and reduction of energy consumption of the equipment. Please refer to "2.2 Optimizing Resources Utilization" of the Report for details.

The exhaust emission from sewage treatment business mainly includes the foul gas arising during production of the sewage treatment plant.

The Company has taken various measures to reduce the four gases arising from operation of the Company and reduce the impact of foul gas on the environment:

– After the technical transformation, Yaerdang Sewage Treatment Plant increased the collection scope of the odor control system, gathering the odor arising from sewage treatment by air draft and treating with the odor control equipment before emission to the air;

– The production/office waste water was discharged to the sewage treatment system of the plant for centralized treatment before discharge. The Company increased the greening work in and nearby the sewage treatment plant.

During the Reporting Period, the greenhouse gas emission per unit operating income of the Company was 106.51 tons/RMB million.

- *Waste Management and Emission Reduction*

The Company formulated the Hazardous Waste Management System of Luzhou Xinglu sewage Treatment Co., Ltd. strictly in accordance with the national pollution control standard for storage of hazard wastes (GB18597–2001) and the Management Measures for Duplicate Form for Transfer of Hazardous Waste, ensuring centralized gathering and collection, storage by category of the hazardous wastes, consistency of the account with the physical inventory, standard record and compliant treatment.

The Company implemented the emission and waste reporting and registration system. The Company investigated and registered the type, amount, concentration, means and destination of discharge of the wastes at all discharging positions to establish a record of pollution source and report and register such data according to relevant provisions. In addition, the Company also implemented the quantitative management system of waste discharge, established quota indicators for waste discharge, and incorporated waste discharge quota into the production plan and technology management as an important part of production quota.

Laboratory center of the Company formulated the Management System for Hazardous Waste and the Hazardous Waste Contingency Plan and specially set up impermeable leak-proof hazardous waste storage, with cofferdam around the storage sites and hazardous waste identification on the external water, and made clear personal responsibility through propaganda by meetings.

Water Supply Business

The hazardous wastes arising from the water supply business mainly include chemical reagents, such as organic solvent, trichloromethane, and phenol effluent. The Company set up the hazardous waste storage, with cofferdam around the storage sites. Reagent bottles containing hazardous wastes were all disposed as hazardous wastes; the detectors truthfully filled the amount of wastes on the Hazardous Waste Record, for which the environmental protection management personnel of the monitoring station conducted statistics quarterly. The second statistics of the actual amount was carried out at the end of the year before the wastes were transferred to qualified third-party organization for disposal.

The Company adopted various measures to reduce the generation of hazardous wastes. For water quality inspection, the Company chose detection method using less hazardous reagent according to the national provisions and the practices to minimize the hazardous waste.

Non-hazardous wastes arising from the water supply business of the Company mainly include the dry sludge cake, containers storing non-poisonous reagent, and domestic wastes arising from the production. The Company concentrated the sludge arising from concentration and dehydration of the high turbid wastewater discharged from the settling pond and filter chamber, and then dehydrated and dried it with the vacuum filter or centrifugal machine before delivering to the construction waste landfill. Containers of reagent were delivered to and disposed at the waste treatment plant together with the domestic waste after being cleaned.

Sewage Treatment Business

Hazardous wastes arising from the sewage treatment business of the Company mainly included the waste chemicals arising from water quality inspection and test, and waste oil arising from maintenance of the equipment, which were all delivered to a third-party organization for transfer and disposal.

Non-hazardous wastes arising from the sewage treatment business mainly included the domestic sludge arising from sewage treatment, which was concentrated and dehydrated before delivering to a qualified third-party landfill for sanitary landfill to realize harmless disposal of the sludge.

The Company has taken various measures to reduce the generation of non-hazardous wastes. In 2018, the Company planned and implemented the sludge drying project in the east of the city. By reducing water content of the sludge from 80% to below 60% through centralized treatment, the mass and volume of the sludge could be reduced by one fold, minimizing the sludge. The Company also cooperated with third parties such as the brick factory to make sludge into bricks, utilizing sludge as resourced.

Name of Indicator	Unit	**2018**	2017
Total greenhouse gas emissions	(ton)	**129,745.02**	94,960.50
Generation of hazardous waste	(ton)	**19.08**	4.80
Density of hazardous waste generation	(kg/RMB million)	**15.66**	4.4
Generation of non-hazardous waste*	(ton)	**101,881.69**	49,934.84
Density of non-hazardous waste generation	(ton/RMB million)	**83.63**	46.2

**Note:* The amount of non-hazardous wastes, such as the slag, waste stone, and building debris, increased during the Reporting Period due to the construction activities, causing a great difference of the total non-hazardous waste from that of 2017.

2.2 *Optimizing Resources Utilization*

As a tap water supply and sewage treatment service provider, the Company makes improvement of resources utilization as a goal of resource management of the Company. By implementing effective resources management, the Company improved the resource utilization efficiency while providing clean water resources for the environment and the society, realizing overall sustainable development of the company, industry and society.

Main energy consumption of the Company was the electricity consumed for production and daily office work. The Company actively promoted energy saving and cost reduction during the production, and promoted energy saving and environmental protection to reduce electricity consumption by promoting energy saving technologies and various green office measures.

During the Reporting Period, the comprehensive energy consumption per unit operating income of the Company was 11.44 tons of standard coal/RMB million.

Water Supply Business

– The Company strictly controlled the indicators for units of high energy consumption, analyzed the electricity consumption every month, and eliminated abnormalities in a timely manner if any;

– The Company increased the maintenance and management of the equipment, replaced old equipment, and paid more attention to high-efficiency and energy saving when choosing the equipment, enabling the equipment to operate under the best conditions. Four high-efficient water pumps were put into use in 2018;

– The Company strengthened the dispatching management of water supply, and used the combination of high-efficient units as far as possible to reduce electricity consumption.

Sewage Treatment Business

– The Company formulated the Compilation of Production Management System, and the System of Monthly Statement of Production Energy Consumption, and held production and operation analysis meeting every month to analyze the reasons for increase or reduction of energy consumption and to promote reasonable use of the resources to reduce energy consumption;

– Keep low dissolved oxygen and sludge concentration during the production to minimize electricity consumption;

– Start and stop the lift pump at high level to reduce electricity consumption;

– Carry out routine monitoring of the electricity consumption, and perform a statistics of and analyzed the monthly consumption, and set up the objective assessment mechanism at the beginning of the year to regulate the process supervision strictly.

Green Office

The Company actively promoted the green office policy and took various measures to reduce resources consumption during daily work:

– Forbid incandescent light and running water, and set a reasonable temperature to start the air conditioner to avoid a waste of electricity;

– Maximize paperless office through the OA system and recycle the toner and ink box;

– Carry out the energy saving awareness week periodically every year to strengthen the energy saving awareness of the employees, publicize and promote the energy saving methods and measures.

Name of Indicator	Unit	2018	2017
Diesel	(L)	**17,943.21**	30,421.04
Gasoline	(L)	**121,113.54**	165,915.01
Natural gas	(m^3)	**35,357.01**	46,598.41
Acetylene	(kg)	**1,211.00**	2,089
Purchased electricity	(kWh)	**111,785,377.00**	80,501,736
Liquefied petroleum gas	(kg)	**2,250.00**	–
Total energy	(tonne of coal equivalent)	**13,941.88**	10172.00

2.3 *Water Environment Protection*

The Company, making "Governing Water Pollution, and Benefiting from Water Environment" as its mission and actively responding to the national chronological civilization construction, strictly complied with the relevant laws and regulations, such as the Water Law of the People's Republic of China, the Law of the People's Republic of China on Soil and water conservation, the Interim Measures for the Administration of Water Intaking Licenses and Water Resources Fees in Sichuan, and the Measures for the Administration of Water Conservation of Luzhou, and incorporated environmental and natural resources protection into its business operation and management based on its business characteristics to carry out all-around and whole-process identification and evaluation of environmental impact factors, to reduce the impact of businesses on the environment, and to realize coordinated development with the natural environment.

Exploring new direction for water environment protection together with the government and other enterprises, the Company actively takes part in the activities of the City Water and Wastewater Association of Sichuan Province and is a standing director unit of the association.

During the Reporting Period, the Company was not involved in any investigation, punishment, action or negative media report arising from water taking or pollutant discharge.

- *Use and Management of Water Resource*

The Company strictly complies with requirements of the Urban Management Bureau of the place of operation for water quality and safety production; actively assists the Environmental Protection Agency of the place of operation with the governance concerning environmental protection; and reports the amount of water intake to the Water Supplies Bureau of the place of operation quarterly, and cooperates with the governance concerning water intaking and water source.

To ensure high-efficient and safe use of the water resources, the Company has taken various measures to control the use of water resources in such steps as water intaking, utilization, and drainage.

Water Intaking	–	Intake water strictly in accordance with the water intaking license during water intaking, and actively protect the natural environment nearby the intake.
Water Utilization	–	Utilization of water resources met relevant national standard and provisions;
	–	The Company strengthened the control of tap water use during production of the water production enterprises, and reduced water consumption by recycling the backwash water and the supernate of sludge water after the sludge system, reducing water resource consumption while reducing sewage discharge;
	–	Carry out routine monitoring of the water consumption, perform a statistics of and analyzed the monthly consumption, and set up the objective assessment mechanism;
	–	The sewage treatment plant constructed the middle water reuse system for production and operation and afforestation irrigation to reduce tap water consumption.
Drainage	–	As for wastewater discharge, the Company fully complied with national standards such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918–2002), the Technical Specification for Operation, Maintenance, and Safety of Municipal Wastewater Treatment Plant (CJJ60–2011), and the Interim Measures for Assessment of Municipal Wastewater Treatment (JC [2017] No.143);
	–	The Company discharged the bottom mud arising from water production strictly as required, and recycled the supernate of the bottom mud by after concentration, and made the slurry at the bottom into mud cake through centrifugal dewatering before delivering outside for harmless disposal.

During the Reporting Period, the water consumption per unit operating income of the Company was 5.9 thousand tons/RMB million.

- *Water Resource Protection*

To protect the water source and ecological environment of the place of operation, the Company formulated the Patrol System of the Water Conservation District, requiring the person on duty of the water intaking pump station to patrol the class 1 water conservation district every day and assist the governmental departments to clear white trash; office staff to patrol the class 2 water conservation district every month to check for pouring of poisonous and hazardous substances and damage to the environment which breach the Regulations for the Protection and Management of Drinking Water Sources in Sichuan.

A third-party professional organization was appointed for each project for project management of the Company to carry out environmental impact assessment of the project, and submit the result to the environmental protection department for approval. As required by the reply of the environmental protection department on environmental impact, the Company supervised and urged the construction unit to accomplish the environmental protection work and implement environmental protection measures during the construction.

During the Reporting Period, the Company actively attended the "Joint Emergency Exercise of Oil Spill in Luzhou Water Area of the Yangtze River 2018" jointly held by the Yangtze River Shipping Administration of the Ministry of Transport, Sichuan Provincial Transport Department, and Luzhou Municipal People's Government and organized by Luzhou Marine Bureau, achieving excellent result and winning written gratitude from Luzhou Marine Bureau.

Name of Indicator	Unit	**2018**	2017
Amount of water intake for water production and water supply business	(ten thousand tons)	**14,007.61**	10,794.67
Total water consumption for production and office	(ten thousand tons)	**713.40**	–
Consumption of purifier	(ton)	**1,964.65**	–
Utilization rate of bottom wastewater during water production and supply	(%)	**20.13**	–
Total discharge of urban sewage reaching wastewater discharge standards	(m^3)	**83,120,261.00**	60,253,550.00
COD reduction for urban sewage discharge	(ton)	**12,495.43**	9,522.53
BOD emission reduction of urban wastewater	(ton)	**6,433.33**	–
Ammonia nitrogen emission reduction of urban wastewater	(ton)	**1,611.12**	1,284.31
Ammoniacal nitrogen reduction for urban sewage discharge	(ton)	**211.62**	–
Amount of office wastewater discharge	(m^3)	**170,758.98**	96,887.64
Number of environmental protection trainings organized or attended	(time)	**48**	39
Number of personnel attending environmental protection training	(person-time)	**1,682**	1,793
Number of trees planted	(tree)	**260**	0
Amount of garbage removed from the water conservation district	(ton)	**6.09**	39.4

3. Creating a Happy Home

Adhering to the philosophy of people oriented, safeguarded the legal rights and interests of employees, the Company paid attention to their career development and their physical and psychological health, strove to achieve mutual development with the employees, and regarded them as valuable wealth of the Company.

3.1 Equal Employment

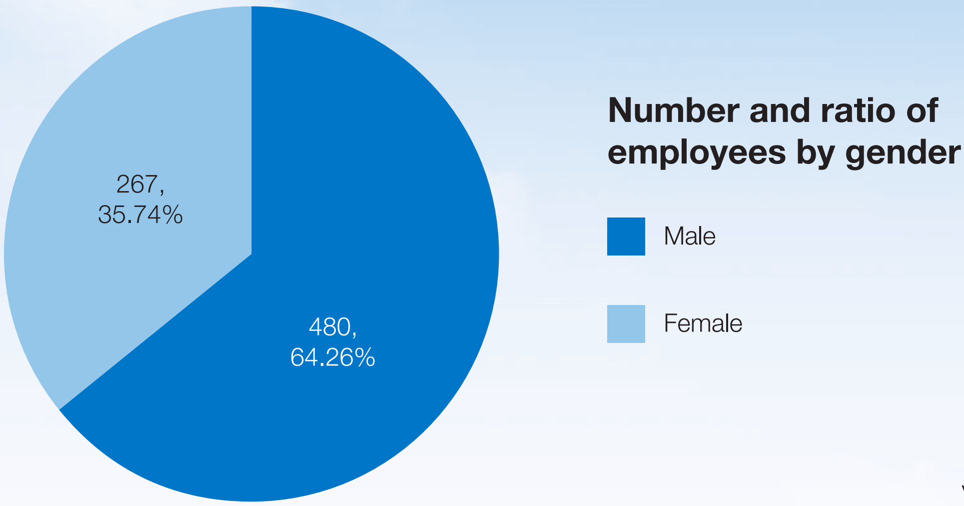
The Company strictly complies with the national laws and regulations such as the PRC Labor Law, the PRC Labor Contract Law, the Minor Protection Law of the People's Republic of China, and formulated various systems such as the "Administrative Measures for Employee Recruitment" and the "Administrative Measures on Labor Contract" to engage employees according to the laws, respecting and ensuring equal opportunities to all employees.

- *Equal Employment*

  The Company attached importance to the diversity of employees and was dedicated to create an equal and just working environment for the employees and built a harmonious and diversified team. Adhering to the principle of equal employment, we evaluated the qualification of professionals based on the compliance, attitude, performance and ability, and avoided employment discrimination by any means, in order to provide equal opportunities for all employees and protect their rights of equal employment.

  The Company set up legal and compliant recruitment and employment conditions and a harmonious labor recruitment and dismissal system, avoiding any inequality due to age, gender, culture, and other factors during the recruitment.

As of the end of the Reporting Period, the number of total employees of the Company was 747.



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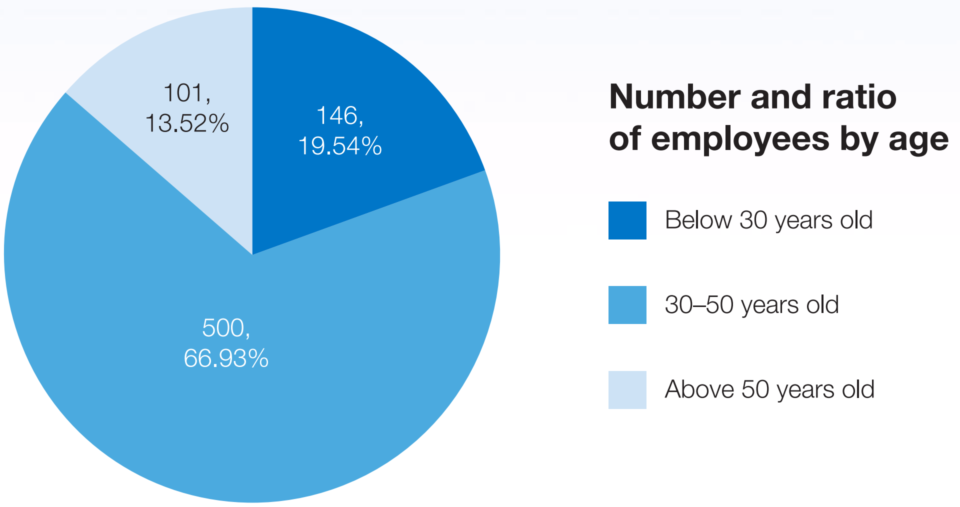
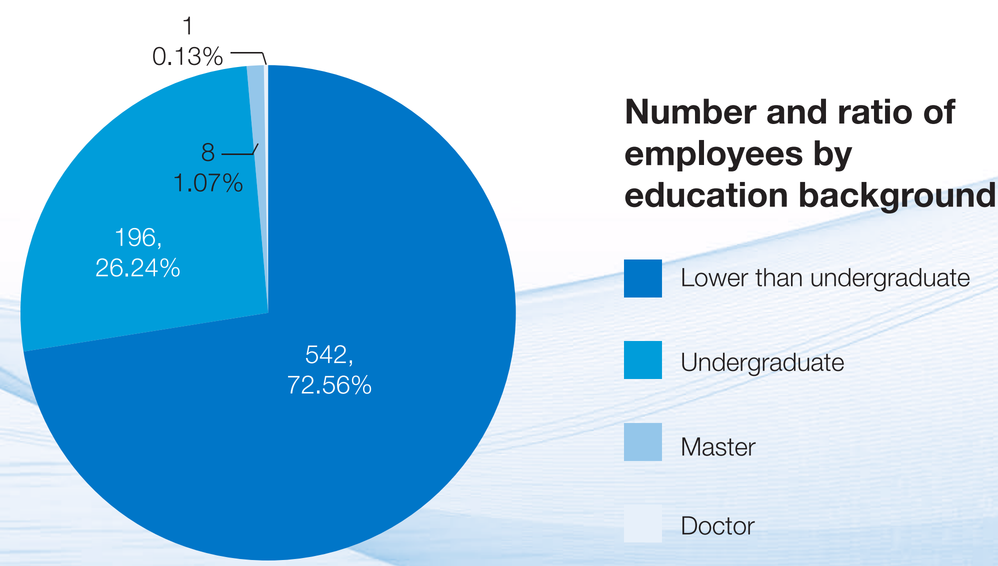
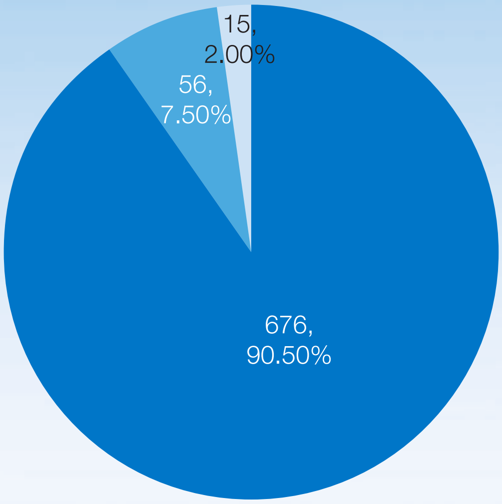
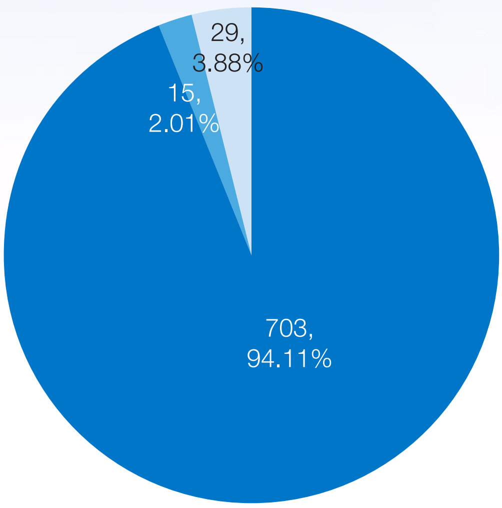






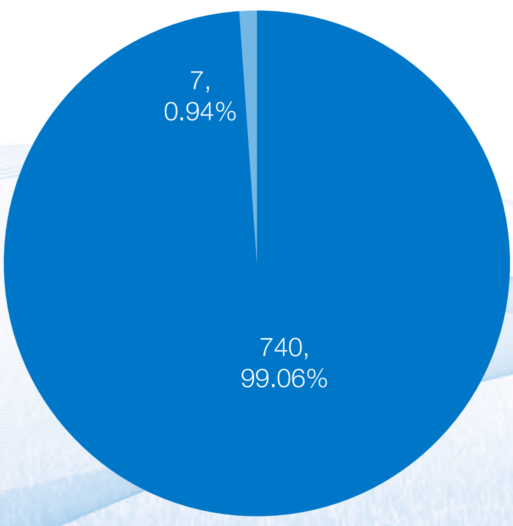
Number and ratio of employees by seniority

- Junior level
- Middle level
- Senior level



Number and ratio of employees by region

- Sichuan Province
- Chongqing
- Places outside Sichuan Province and Chongqing



Number and ratio of employees by nationality

- Han nationality
- Minority

- *Safeguarding Rights and Interests of Employees*

  The Company fully respects the demands of the employees, safeguards their rights and interests, protects their immediate interests, and establishes harmonious labor relations.

  The Company enters into labor contracts with the employees and strictly complies with national provisions concerning working hours, holidays, and salary, and formulates a series of rules and regulations such as the "Remuneration Management Measures" and the "Performance Appraisal System" to improve the salary management system. The Company contributes to the social insurances and housing fund for the employees every month.

  The Company strictly complies with the working hours specified by China, safeguards the rights of rest and vocation of the employees according to the national provisions, and ensures the statutory holidays and guarantees employees' rights for annual leaves.

  The Company, paying attention to safeguarding the rights and interests of female employees, formulates the "Regulations Concerning the Labor Protection of Female Staff and Workers" and other regulations for fully respecting and protecting legal rights of the female employees.

  During the Reporting Period, the Company was not involved in any action and labor arbitration arising from employment.

- *Preventing Child Labor and Forced Labor*

  The Company strictly complies with the all relevant national laws and regulations prohibits any means of child labor and forced labor, and has the all zero tolerance against child labor, forced labor, and other illegal labor. The Company forbids the employment of any person under the age of 18 years old, and rejects any means of child labor and forced labor in the operation and management.

During the Reporting Period, the Company was not involved in any violation of laws due to use of child labor and forced labor.

Name of Indicator		Unit	2018
Annual turnover rate of employees		(%)	**5.54**
Turnover rate of employees by gender	Male	(%)	**5.60**
	Female	(%)	**5.43**
Turnover rate of employees by age	Below 30 years old	(%)	**13.77**
	30–50 years old	(%)	**4.00**
	Above 50 years old	(%)	**0.00**
Turnover rate of employees by region	Sichuan Province	(%)	**5.84**
	Chongqing	(%)	**6.25**
	Places outside Sichuan Province and Chongqing	(%)	**0.00**

3.2 *Promoting Development*

Adhering to the philosophy of "mutual development, joint creation of excellence, and sharing achievements", the Company recruits talents through various channels and focused on career planning, utilization, management, and training of the employees, in order to ensure reasonable and smooth transfer, competency to work both at the top and at the grass roots, being prepared for both promotion and demotion, and discover competent persons and put them at suitable positions to give full play to their abilities.

- *Employee Training*

  The Company knows deep down that talent dividend is the source power for the development of an enterprise. For strengthening the echelon building of talents, fastening the pace of talent training, and realizing mutual development between the employees and the company, we have formulated and implemented the talent development strategy and established the reserve cadres and reserve talent management mechanism, making full use of the internal and external training resources to establish a complete talent training mechanism and provide a study and exchange platform for employees.

  During the Reporting Period, the ratio of employees receiving training of the Company was 100%.

- *"Mentoring" Activities*

  To support the talent development strategy of the Company, fasten the construction of the talent team, speed up the pace of talent training, and build a team with excellent professional ethics and professional skills, the Company started the "apprenticeship" work and worked out the Management Measures for Apprenticeship. We appointed experienced "master" to train the "apprentice" and study and apply new technologies and new processes with the "apprentice", as well as encourage the "apprentice" to attend various skill competitions and obtain occupational skill certifications. The human resources department assessed the achievements of the "apprentice" upon expiration of the training period. In 2018, there were 62 pairs of "apprenticeship", among which 44 "apprentices" attended the apprenticeship examination and 43 of them passed the examination successfully.

- *Employee Evaluation and Promotion*

  The Company clarified the career development path for the employees and provided a smooth career development channel. The Company formulates the "Performance Appraisal Implementation Measures", and carried out assessment on two levels monthly, quarterly and annually, in which the Group is responsible for carrying out assessment on the leaders, middle management cadres, each department and subsidiary of the Company, while each department and subsidiary is responsible for carrying out assessment on the unit employees, and promoting outstanding employees. In addition, the Company has established the "Management Measures for Adjustment of Salary Grade and Level", stipulating the career development plans and promotion standards for employees according to the four categories of management, technology, production services and functions respectively, so as to provide employees with equal opportunities for career development.

- *Assessment of Skill Grade*

  At the beginning of 2018, the Company optimized and innovated the salary system, redesigned and formulated the broadband salary system of the employees, and effectively planned and established a two-channel system for career development of the employees. To regulate the skill grade of the employees engaged in the production and operation and the operation and service posts of the Company, and to match the salary with post value, skill grade, and performance, the first assessment of skill grade was organized and carried out for employees engaged in the production and operation and the operation and service of the Company under the guidance of the instructors of the urban water supply and sewage training base of Sichuan Province. There were 259 employees attending the assessment and passing the assessment, among which 14 were evaluated as senior level, 71 were evaluated as middle level, and 118 were evaluated as junior level.

- *Appointment by Title*

  The human resources department, actively cooperating with the salary system reform and combining the "Title Management Measures" of the Group, formulated the "Program of Appointment for Professional and Technical Posts 2018", which was approved by the meeting of the general manager office. The appointment was carried out under the supervision of the disciplinary inspection committee of the Company according to the procedures required by the program. The letters of appointment were issued in September 2018 after the process of application, qualification, appraisal by the professional evaluation group, audit by the leading group, and announcement. In this appointment, 85 persons were appointed for professional and technical posts, including 12 with senior titles, 30 with middle titles, and 43 with junior titles.

Example: The Company Carried out Training on Key Marketing Works

In June 2018, the Company carried out special training on key marketing works, with the purpose of ensuring successful completion of the handover of the "service sector moving (三產移產)" supply work in 2018, regulating the management of installation charges and clarifying the specific work flow. The training was divided into two parts: promotion of the water/power/air supply and property management business, and the installation and inspection & repair charges of the water supply pipeline: As for "promotion of the water/power/air supply and property management business", the marketing department organized the attendees to visit the reconstruction site of "service sector moving (三產移產)" of Chuannan Gasfield, and the engineering department carried out the training on the on-site construction management of the "service sector moving (三產移產)"; as for "water supply installation and inspection and repair charges", the attendees studied again the "Management Measures for Water Supply Pipeline Installation and Inspection and Repair Charges" and the problems arising during the study from the operational and service units were answered on site.

After the training, the operational and service units further understood the promotion of "service sector moving (三產移產)" business, unified the understanding of the Management Measures for Water Supply Pipeline Installation and Inspection and Repair Charges of the Company, and increased the knowledge of the employees about the business. The training obtained unanimous high praise and set up a solid foundation for carrying out the above works in the future.

Example: Xinglu Sewage Treatment Carried out Training on the Environmental Protection Tax Law

On 28 March, Xinglu Sewage Treatment invited professionals, including the leader of the Law Enforcement Detachment of the Municipal Environmental Monitoring Center and the deputy director of the First Branch of the Municipal Local Tax Bureau, to explain the "Environmental Protection Tax Law of the People's Republic of China" to the employees of the Company, enabling the employees to understand and use the law, set up the ecological red line, and master tax policies and the tax declaration. This training on the tax law covered more 60 persons, including leaders and middle and senior level and front-line employees.

General manager of Xinglu Sewage Treatment made plans for future work of the functional departments and branches (factories) according to the requirements of the new tax law to ensure water quality of the branches reaching the standard and the successful initial collection of the environmental protection tax on April 1: The transform of fee-to-tax was not only a need of social and economic development, but bore heavy social missions. As a state-owned environment-friendly enterprise, we believe that we can bring more tax revenues and undertake the social responsibility of making the sky bluer, the grass greener, and the water cleaner.

Name of Indicator	Unit	2018	2017
Total number of trainings	(time)	**155**	125
Total number of attendees	(person-time)	**3,349**	4,017
Amount of training expenditures	(ten thousand yuan)	**51.44**	35.80
Average training time per employee	(hour/person)	**5.85**	3.93
Average training time per male employee	(hour/person)	**7.11**	4.12
Average training time per female employee	(hour/person)	**6.58**	3.60
Average training time per front-line employee	(hour/person)	**2.75**	1.45
Average training time per mid-level employee	(hour/person)	**31.79**	17.22
Average training time per senior-level employee	(hour/person)	**73.20**	63.29

3.3 *Ensuring the Safety of Employees*

The Company attaches importance to the safety and health of the employees and strictly complies with relevant laws and regulations such as the "Fire Prevention Law of The People's Republic of China", the "Law of the People's Republic of China on Production safety", the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases", and the "Measures for the Supervision and Administration of Occupational Hygiene in Workplace". Upholding the concept that "Benefits Generated Without Safety and Environmental Protection are Inadvisable, Efficiency Created Without Safety and Environmental Protection is Inadvisable", the Company is dedicated to provide a safe and healthy working environment for the employees by establishing relevant internal management system and improving the production safety and occupational health and safety system and detecting and publishing occupational hazard factors.

- *Safe Operation*

The Company has obtained the OHSAS18001 Occupational Health and Safety Assessment Series certificate and has formulated a series of management systems, such as the "Targeted Management of Production Safety and Targeted Assessment Management System", the "Management System for Production Safety Accountability System" and the "Occupational Health Management System", to safeguard occupational health and safety by improving the construction of the safety management system on the system level.

During the Reporting Period, the Company was awarded the "Grade II Enterprise Industry Trade Work Safety Standardization" qualification by Sichuan Provincial Administration of Work Safety and has been in strict compliance with the requirement thereunder within its valid period, marking a staged achievement of the Company in work safety standardization.

Honor of Grade II Work Safety Standardization

Certificate of Work Safety Standardization

In addition, the Company actively carried out safety training and education for the employees to improve their professional skills and safety awareness, and improved the ability of the employees to handle emergencies through emergency exercise of production safety accident. In 2018, the Company organized various safety exercises and training activities, such as the "anti-terrorist emergency exercise", "emergency response exercise of raw water pollution of the Yangtze River", and "safety training of the water plant". Xinglu Sewage carried out comprehensive, holiday, seasonal, professional, and routine safety, environmental protection, and occupational health inspection and hidden risk control strictly in accordance with the "2018 Work Program of Identification of Hidden Risk of Safety and Environmental Protection", and carried out various inspection activities such as the "comprehensive inspection of safety and environmental protection at the end and beginning of the year", the "comprehensive safety and environmental protection inspection during the 'two sessions' and 'Chinese New Year'", and the "comprehensive safety and environmental protection inspection before the 'Labor Day'".

During the Reporting Period, the Company carried out 64 emergency exercises attended by 1,127 employees.

- *Occupational Health and Safety*

The Company strictly complied with the "Law of the People's Republic of China on Prevention and Control of Occupational Diseases" and the "Technical Specifications for Occupational Health Surveillance", and periodically monitored the occupational hazard factors and evaluated current situation by organizing occupational health examination, for the purpose of monitoring the occupational health condition of the employees in a timely manner and regulating the occupational health surveillance. The Company organized occupational health training for the employees every year and signed the "Safety, Environmental Protection, and Occupational Health Responsibility Agreement" to improve the occupational health awareness of the employees.

The Company engages relevant qualified professional detection company to detect noise and chlorine at the production sites of tap water every year, and the results show that the occupational hazard factors exposed during the course of production of the Company all meet the safety standard. In addition, the production sites of the Company are all equipped with protective equipment for the employees, such the oxygen respirator and protective clothing to guarantee personal safety of the employees during the course of production and operation.

The Company established an occupational health management team for the wastewater treatment business, which strictly executed the occupational health management system. The Company organized occupational health and physical examination for the front-line employees of the branches (factory) and the operation security center before, during, and after the employment.

During the Reporting Period, the coverage rate of physical examination for employees, special examination for the females, and occupational disease examination were all 100%.

Example: Training on Identification of Risk Points of Safety, Environmental Protection, and Occupational Health

In October 2018, the Company organized safety management training on all the safety officers for the problems found during the previous safety, environmental protection, and occupational health examination to practically improve the Group's management ability of safety, environmental protection, and occupational health. The training explained in details the importance of safety, environmental protection, and occupational health management, basic qualifications required for the safety officers, standard collection and sorting of materials of safety management, and how to carry out the safety, environmental protection, and occupational health examination, and control of hidden risks.

Name of Indicator	Unit	2018	2017
Investment in safety production	(ten thousand yuan)	**956.32**	535.49
Times of safety education and training	(time)	**210**	64
Number of employees attending safety education and training	(person-time)	**4,160**	1,738

3.4 *Gathering Care and Love*

Happiness of the employees of the Company is considered as the source of the powerful centripetal force and cohesion of the Company. We listened to the demands of the employees, cared for their work and life, and paid attention to the humanistic care, and actively held various employees caring activities which include assistance to employees in difficulty, festival celebration, and care for females.

- *Democratic Management*

  The Company gave full play to the functions of democratic management and democratic supervision of the employee representative congress by strengthening the construction of institutionalization and standardization, and established the information management mechanism of transmitting order from the superior to the inferior and notifying the superior of the circumstance of the inferior. During the course of improving democratic management, we disclosed information in connection with the production, operation, and management of the enterprise and concerning immediate interests of the employees and information about hot spots and difficulties which the customers generally cared for in a timely manner, with the employee representative congress and the openness of business affairs as the carrier and by fully implementing the combination of the internal and external disclosure.

  To further strengthen the democratic management and protect legal rights and interests of the employees, the Company continued to improve the system of the employee representative congress and periodically held the employee representative congress to elect employee directors and employee supervisors, and invited employees' representative to attend the assessment work of the one-report two-appraisal of the leading group of the Company and the work report of the middle-level cadres, listing to the expectations of the employees and jointly seeking for development of the Company.

- *Assistance to Employees in Difficulty*

  Adhering to "Warmth Project", the Company cared for the anxiety and difficulties of the employees and endeavored to solve their practical difficulties. In 2018, the Company collectively donated more than 60 thousand Yuan to employees suffered from accidents.

  We took various measures to strengthen the assistance to employees in difficulty:

  – The Company kept the internal record of employees with difficulties so that the Company could provide assistance for such employees in a timely manner;

  – Caring for employees sick in hospital and providing corresponding assistances at the first time;

  – The Company provided care and assistances for employees who were in difficulties for any reason.

- *Care for Females*

  The Company actively promoted the measures to care for female employees, caring for the physical and psychological health of female employees and facilitating the career development of female employees:

  – Improving the professional skills of female employees by business propaganda and communication activities for female employees;

  – Organizing gynecological examination periodically for female employees;

  – Caring for female employees giving birth to babies;

  – Organizing a series of activities such as pedestrianism and games on the International Working Women's Day for all employees.

- *Recreational and Sports Activities*

  The Company is dedicated to create a vigorous and vital working environment for the employees, and holds recreational and sports activities and festival activities to enrich the spare time of employees and revive the employees for work:

  – Actively organizing employees to various recreational and sports activities, and holding employee basketball match to facilitate communications between employees and enhance cohesion of employees;

  – Organizing employees to attend the cultural activities held by the Municipal Urban Management Committee, the Municipal Youth League, and the Municipal State-owned Assets Supervision and Administration Commission;

  – Xinglu Sewage attended the photo contest held by the Provincial Federation of Trade Unions and the Municipal Federation of Trade Unions, and its entry was highly praised;

  – Organizing and holding art performance for celebrating the 40th Anniversary of the Reform and Opening-up and the 60th Anniversary of the Company;

  – Organizing employees to the “Green, Health, and Environmental Protection Tour” and “Pedestrianism + Cycling” on the Mid-Autumn Festival’s eve;

  – Holding various festival celebrations such as the speech contest on the “May 4th” Youth Day.

4. Harmonious Community

Since its establishment, the Company insisting on the concept of “stay true to the mission and pay back to the society”, has always shared its development achievement with the society, carried out close cooperation and achieved win-win results with the supply chain and partners relying on its resources and advantages. We actively performed our social responsibility, devoted ourselves to the community public service, and implemented precise poverty alleviation in response to the national strategy.

4.1 Achieving Win-Win Result with Supplier

The Company formulated the “Regulation for Materials Procurement Management”, the “Administrative Measures for Materials Procurement Tendering”, the “Administrative Measures for Suppliers” and other internal systems to improve its supplier management system constantly, established a long-term mechanism for procurement management, regulated materials procurement, strengthened supplier management, and controlled the environmental and social risk of the supply chain.

- *Responsible Procurement*

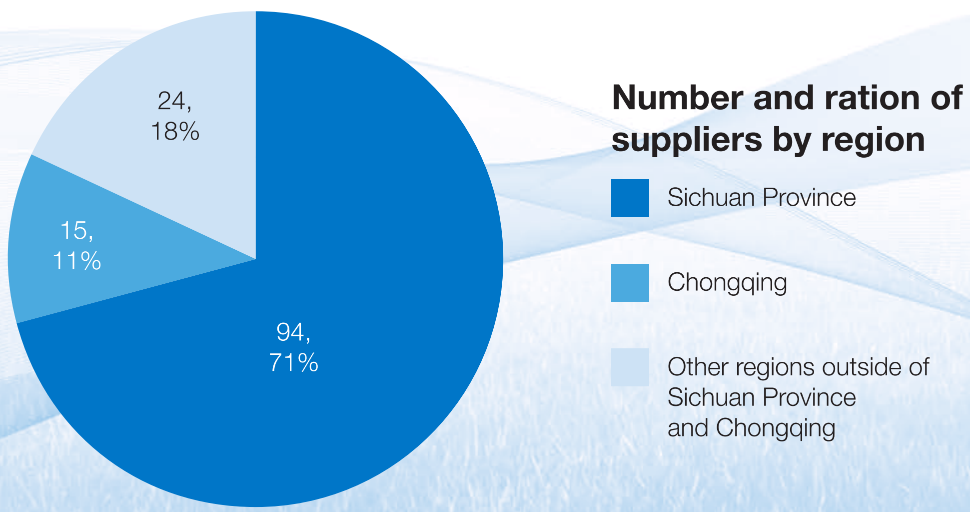
We entered into an environmental, occupational safety and health management agreement with the suppliers when entering the annual contract, and required the suppliers to fill the "Supplier Questionnaire" and provide valid certificates such as the quality and environment management system certificate, special equipment design or manufacturing permit, and the water sanitation permit, so as to effectively control the environmental factors and occupational health and safety risks concerning the product and transportation.

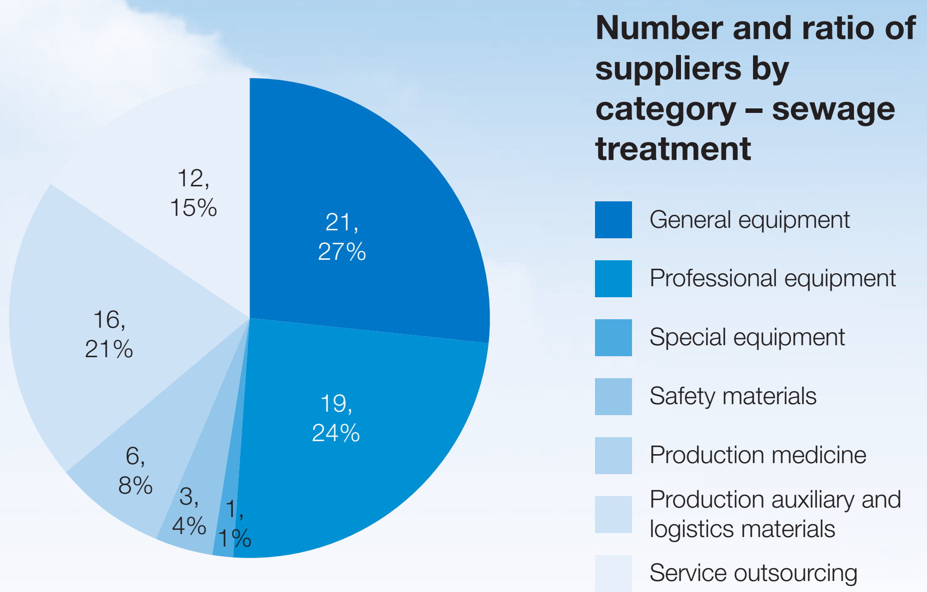
The Company pays close attention to the performance of environmental and social responsibilities of the suppliers, and if the Company is aware of any environmental pollution caused by the supplier, or breach of the labor standards, the Company will degrade or disqualify the suppliers based on the extent of breach.

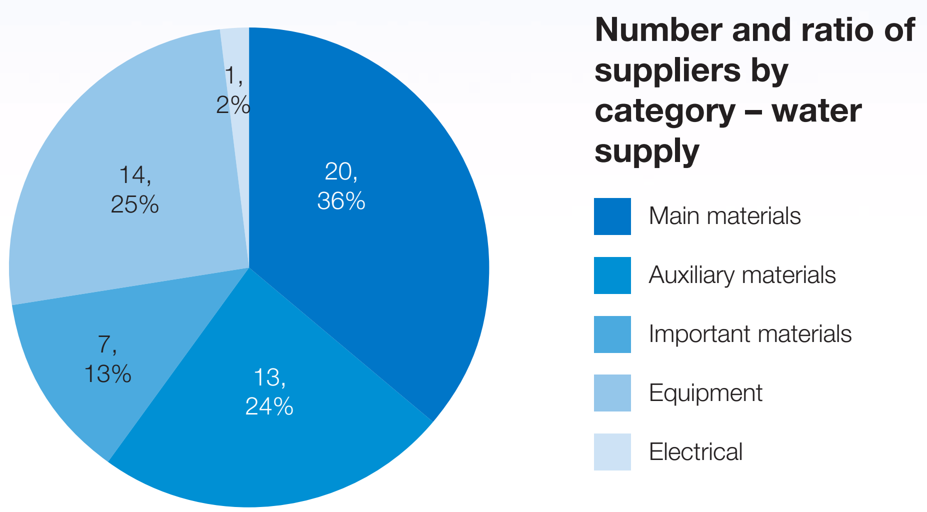
In addition, we have established a systematic supplier selection process, assessed and graded the suppliers in consideration of the compliance procedures, financial strength, product quality, lead time, product price, and follow-up service, and whether having certificates of the ISO9001 and ISO14001 management systems, in combination with open tendering and comprehensive grading system. Suppliers being approved will be listed on the "List of Trial Suppliers" for one year, and those passing the trial will be listed on the "List of Qualified Suppliers". The Company keeps the suppliers' files and follow up their product quality and services.

We performed dynamic management of the selected qualified suppliers, carried out site visit and investigation on main materials and important materials irregularly, made annual comprehensive assessment of all suppliers at the end of the year, and degraded or disqualified of those suppliers in violation of the "Supplier Management System".

As of the end of the Reporting Period, the Company had 133 suppliers, with the assessment rate of 100% during the years executing relevant practices for the suppliers.




12,
15%
21,
27%
16,
21%
19,
24%
6,
8%
3,
4%
1,
1%
Number and ratio of suppliers by category – sewage treatment
General equipment
Professional equipment
Special equipment
Safety materials
Production medicine
Production auxiliary and logistics materials
Service outsourcing


1,
2%
20,
36%
14,
25%
7,
13%
13,
24%
Number and ratio of suppliers by category – water supply
Main materials
Auxiliary materials
Important materials
Equipment
Electrical

4.2 Devoting to Public Welfare

The Company cannot succeed without the help from all walks of life. We have always paid attention to and listened to the demands of the community and done everything we could to help with the community construction. We are dedicated to pay back the society and actively organize activities to rescue the endangered and succor the poor, providing help to the vulnerable groups in the society.

- *Community Participation*

  The Company performs its social responsibilities and serves the community while committing to provide superior services and enhancing the enterprise brand. The Company actively organized employees to attend various public welfare activities such as community civilization propaganda and volunteer service, insisting on paying back the society with love and encouraging the employees to make contribution to the society, promoting the community development, and facilitating the construction of the harmonious socialist society.

  – The Company organized and took part in the “Sunflower Health Plan”, raising funds for eye care of the juvenile in the rural area, popularizing the public courses of eye care, introducing medical resources, and protecting the eyes of the juvenile in the rural area;

  – The Company actively carried out community volunteer service, organized volunteers to publicize general knowledge about water use to customers and provide home repair every weekend, and reported brief news about the “1h Weekend Volunteer Service” on time every week;

  – The Company assisted municipal authorities to carry out various propagandas, such as safety production and the World Environment Day on 5 June, publicized various social initiatives such as the “Life Foremost and Safe Development” and the “Act towards a Beautiful China” by on-site consultation and distribution of propaganda materials.

“1h Weekend Volunteer Service”

- *Precise Poverty Alleviation*

In response to the national general plan and requirement of "Precise Poverty Alleviation and Tackling Plan", the Company actively organized poverty alleviation activities, helped the poverty-stricken areas to accelerate economic development and improve living standard, so as to eliminate poverty and improve the livelihood.

– Yuxiangping Village, Lianghe Town, Xu Yong County is the object of the poverty alleviation pair work of the Company. Since the start of the poverty alleviation pair work in 2015, the Company has made great effort to reconstruct the water supply facilities of Yuxiangping Village, and supported the industry and road maintenance. In 2018, the Company further optimized the support to industrial development, support to create jobs, support to implement guarantees, support to improve conditions, and support to enhance the aftereffect and helped the Yuxiangping Village to purchase green baby chicks and black baby goats, install fences, build impounding reservoir, harden forest roads and others.

Name of Indicator	Unit	**2018**	2017
Number of public benefit activities organized or attended	(time)	**119**	131
Number of employees organizing or attending public benefit activities	(person-time)	**514**	566
Hours of organizing or attending public benefit activities	(Hour)	**938**	351
Amount spent on public benefit activity	(ten thousand yuan)	**18.30**	36.30
Amount of external donation	(ten thousand yuan)	**18.30**	36.30

AWARDS AND HONORS

Awards Name	Granting Unit
Model Credible Enterprise Observing Laws of Sichuan Province	Sichuan Provincial Legal Governance Leading Group/State-Owned Assets Supervision and Administration Commission of Sichuan Provincial Government
Safety Production Outstanding Unit 2018	Luzhou Municipal Government
"Advanced Collective" of the Prize for Outstanding Contribution to Promoting Urban-Rural Integration Development of Jiangyang District	Jiangyang District People's Government of Luzhou
"Advanced Collective" in Construction and Opening of Yunlong Airport of Luzhou	Jiangyang District People's Government of Luzhou
First Prize Unit 2018	Xinglu Investment
Second Prize for Annual Information Propaganda	Xinglu Investment

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Shareholders of Luzhou Xinglu Water (Group) Co., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Luzhou Xinglu Water (Group) Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 135 to 272, 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, consolidated statement of changes in equity and 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"). 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 International Ethics Standards Board for Accountants' 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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of intangible assets not yet available for use	
We identified the impairment assessment of intangible assets recognised under service concession arrangements not yet available for use ("IA") as a key audit matter due to its significance to the consolidated financial statements and significant judgement exercised by the directors of the Company on the impairment assessment. As disclosed in note 18 to the consolidated financial statements, for the purpose of impairment assessment, the carrying amount of the IA was RMB578 million. Determining the amount of impairment for such IA requires an estimation of the recoverable amounts, which are the value in use ("VIU") of the cash generating units ("CGUs") to which the IA have been allocated and the Group engaged an independent valuer to perform such valuation. The VIU is determined based on the cash flow projections for the CGUs discounted to the present value and requires the use of key assumptions and estimations, the details of which are disclosed in notes 5 and 18 to the consolidated financial statements. The directors of the Company determine that there was no impairment on the IA for the year ended 31 December 2018.	Our procedures in respect of the impairment assessment of the IA included: • Understanding the directors' impairment assessment process, including the allocation of the IA to CGUs, the valuation model and assumptions used by the independent valuer engaged by the Group; • Evaluating the appropriateness of the model used and reviewing the calculation of VIU; • Understanding the Group's future business plan and the directors' estimate of future economic conditions involved in the preparation of financial budgets for the calculation of VIU; • Evaluating the reasonableness of the budgeted cash inflows and outflows in the financial budgets; • Challenging the management and the valuer about the reasonableness of the major assumptions and estimations used in the calculation of VIU; and • Reviewing whether the disclosures of the impairment assessment in the consolidated financial statements are sufficient and appropriate.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of receivables under service concession arrangements (the "Receivables")	
We identified the impairment assessment of the Receivables as a key audit matter due to the significance of the Receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's Receivables at the end of the reporting period. At 31 December 2018, the carrying amount of the Receivables is approximately RMB851.0 million as disclosed in note 18 to the consolidated financial statements, which represented approximately 22.3% of total assets of the Group. As explained in note 3 to the consolidated financial statements, in the current year, the Group adopted International Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9") and did not recognise any impairment as at 1 January 2018 in accordance with the transitional provisions of IFRS 9. As disclosed in note 40(b) to the consolidated financial statements, the management of the Group estimates the amount of 12-month ECL of the Receivables individually, after considering internal credit ratings of certain governmental authorities (the "Grantors"), ageing, historical observed default rates over the expected life of the Receivables. Estimated loss rates are based on historical observed default rates over the expected life of the Grantors and are adjusted for forward-looking information. As disclosed in note 40(b) to the consolidated financial statements, the Group did not recognise any impairment of the Receivables as at 31 December 2018 and for the year then ended.	Our procedures in respect of the assessment of the impairment of the Receivables included: • Obtaining an understanding of the Group's credit policy granted to the Grantors, and key controls on how the management estimates the loss allowance for the Receivables; • Assessing and testing the integrity of information used by management to assess impairment of the Receivables as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant service concession arrangements and other supporting documents; • Understanding and challenging the reasonableness of the management's basis and judgement in determining credit loss allowance on the Receivables as at 1 January 2018 and 31 December 2018, including their identification of any credit impaired Receivables and the basis of estimated loss rates applied to the Grantors (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of the Receivables in note 40(b) to the consolidated financial statements; and • Testing subsequent settlements of the Receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from the Grantors.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
We identified the impairment assessment of goodwill as a key audit matter due to significant judgement exercised by the directors of the Company on the impairment assessment. As disclosed in note 19 to the consolidated financial statements, the goodwill of RMB25,278,000 arose from acquisitions of two subsidiaries in the current year. For the purpose of impairment testing, the goodwill has been allocated to two CGUs, comprising the the two subsidiaries, respectively. Determining the amount of impairment for the goodwill requires an estimation of the recoverable amounts, which are VIU of the CGUs to which the goodwill has been allocated and the Group engaged an independent valuer to perform such valuation. The VIU is determined based on the cash flow projections for the CGUs discounted to the present value and requires the use of key assumptions and estimations, the details of which are disclosed in notes 5 and 19 to the consolidated financial statements. The directors of the Company determine that there was no impairment on the goodwill for the year ended 31 December 2018.	Our procedures in respect of the impairment assessment of goodwill included: • Understanding the directors' impairment assessment process, including the allocation of the goodwill to CGUs, the valuation model and assumptions used by the independent valuer engaged by the Group; • Evaluating the appropriateness of the model used and reviewing the calculation of VIU; • Understanding the future business plan of the two subsidiaries and the directors' estimate of future economic conditions involved in the preparation of financial budgets for the calculation of VIU; • Evaluating the reasonableness of the budgeted cash inflows and outflows in the financial budgets; • Challenging the management and the valuer about the reasonableness of the major assumptions and estimations used in the calculation of VIU; and • Reviewing whether the disclosures of the impairment assessment in the consolidated financial statements are sufficient and appropriate.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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.

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

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

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

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

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

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

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

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

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is K.W. Yim.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
Revenue	6, 7		
Tap water supply		**235,619**	207,391
Wastewater treatment operating services		**194,081**	151,746
Interest income		**40,310**	35,662
Installation services		**282,953**	215,768
Construction and upgrade services of infrastructure		**465,243**	471,177
Total revenue		**1,218,206**	1,081,744
Cost of sales and services		**(939,810)**	(828,250)
Gross profit		**278,396**	253,494
Other income, expenses, gains and losses, net	8	**30,003**	15,071
Impairment losses, net of reversal	9	**(1,470)**	(327)
Distribution and selling expenses		**(13,268)**	(12,533)
Administrative expenses		**(69,795)**	(57,901)
Listing expenses		**–**	(7,722)
Finance costs	10	**(37,236)**	(26,913)
Profit before tax	12	**186,630**	163,169
Income tax expense	11	**(19,388)**	(20,480)
Profit for the year		**167,242**	142,689
Other comprehensive expense:			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (before tax)		**(818)**	–
Deferred income tax on fair value loss on investments in equity instruments at fair value through other comprehensive income		**204**	–
Other comprehensive expense for the year, net of income tax		**(614)**	–
Total comprehensive income for the year		**166,628**	142,689

	Note	2018 RMB'000	2017 RMB'000
Profit for the year attributable to:			
– Owners of the Company		**154,065**	131,298
– Non-controlling interests		**13,177**	11,391
		167,242	142,689
Total comprehensive income for the year attributable to:			
– Owners of the Company		**153,451**	131,298
– Non-controlling interests		**13,177**	11,391
		166,628	142,689
EARNINGS PER SHARE (RMB)	15		
– Basic		**0.18**	0.16
– Diluted		**N/A**	0.16

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
Non-current Assets			
Property, plant and equipment	16	**39,919**	37,320
Prepaid lease payments	20	**76,745**	77,778
Investment properties	17	**12,622**	13,071
Intangible assets	18	**1,947,203**	1,461,240
Goodwill	19	**25,278**	–
Prepayment for prepaid lease payments	28	**4,000**	4,000
Receivables under service concession arrangements	18	**833,537**	736,408
Available-for-sale investments	21	**–**	53,630
Equity instruments at fair value through other comprehensive income	22	**57,273**	–
Deferred tax assets	23	**21,568**	9,007
		3,018,145	2,392,454
Current Assets			
Inventories	24	**33,002**	28,016
Receivables under service concession arrangements	18	**17,454**	14,493
Trade receivables	27	**129,228**	100,429
Prepaid lease payments	20	**1,857**	1,764
Amounts due from customers for contract work	25	**–**	10,464
Contract assets	26	**18,606**	–
Prepayments and other receivables	28	**45,864**	17,121
Bank balances and cash	29	**547,681**	700,075
		793,692	872,362
Current Liabilities			
Trade payables	31	**43,415**	21,752
Advances from customers and other payables	32	**356,404**	431,450
Contract liabilities	33	**176,350**	–
Tax liabilities		**17,912**	12,723
Borrowings	30	**392,256**	289,574
Provisions	35	**1,769**	4,902
		988,106	760,401
Net Current (Liabilities) Assets		**(194,414)**	111,961
Total Assets less Current Liabilities		**2,823,731**	2,504,415

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Capital and Reserves			
Share capital	36	**859,710**	859,710
Share premium and reserves		**1,020,325**	926,530
Equity attributable to owners of the Company		**1,880,035**	1,786,240
Non-controlling interests		**76,876**	91,676
Total Equity		**1,956,911**	1,877,916
Non-current Liabilities			
Deferred tax liabilities	23	**16,766**	12,615
Borrowings	30	**452,178**	313,185
Deferred income – government grants	34	**168,712**	145,036
Provisions	35	**229,164**	155,663
		866,820	626,499
		2,823,731	2,504,415

The consolidated financial statements on pages 135 to 272 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Mr. Zhang Qi	**Mr. Liao Xing Yue**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company							
	Share capital *RMB'000*	FVTOCI reserve *RMB'000*	Capital reserve *RMB'000*	Statutory surplus reserves *RMB'000* *(Note)*	Retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2017	664,310	–	242,853	6,018	376,603	1,289,784	81,489	1,371,273
Profit for the year	–	–	–	–	131,298	131,298	11,391	142,689
Total comprehensive income for the year	–	–	–	–	131,298	131,298	11,391	142,689
Appropriation for the year	–	–	–	16,676	(16,676)	–	–	–
Issue of new ordinary shares *(Note 36)*	195,400	–	203,595	–	–	398,995	–	398,995
Listing expenses related to the issue of ordinary shares *(Note 36)*	–	–	(33,837)	–	–	(33,837)	–	(33,837)
Capital contribution by a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	408	408
Dividend declared to non-controlling interests	–	–	–	–	–	–	(1,612)	(1,612)
At 31 December 2017	859,710	–	412,611	22,694	491,225	1,786,240	91,676	1,877,916
Adjustment *(Note 3)*	–	3,346	–	–	–	3,346	–	3,346
At 1 January 2018 (restated)	**859,710**	**3,346**	**412,611**	**22,694**	**491,225**	**1,789,586**	**91,676**	**1,881,262**
Profit for the year	**-**	**-**	**-**	**-**	**154,065**	**154,065**	**13,177**	**167,242**
Other comprehensive expense for the year	**-**	**(614)**	**-**	**-**	**-**	**(614)**	**-**	**(614)**
Total comprehensive (expense) income for the year	**-**	**(614)**	**-**	**-**	**154,065**	**153,451**	**13,177**	**166,628**
Appropriation for the year	**-**	**-**	**-**	**26,945**	**(26,945)**	**-**	**-**	**-**
Capital contributions by non-controlling shareholders of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**31,000**	**31,000**
2017 final dividend declared *(Note 14)*	**-**	**-**	**-**	**-**	**(68,777)**	**(68,777)**	**-**	**(68,777)**
Dividend declared to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(1,990)**	**(1,990)**
Acquisitions of additional equity interests from non-controlling interests of subsidiaries	**-**	**-**	**5,775**	**-**	**-**	**5,775**	**(76,908)**	**(71,133)**
Acquisitions of subsidiaries *(Note 37)*	**-**	**-**	**-**	**-**	**-**	**-**	**19,921**	**19,921**
At 31 December 2018	**859,710**	**2,732**	**418,386**	**49,639**	**549,568**	**1,880,035**	**76,876**	**1,956,911**

Note: Pursuant to the relevant laws in The People's Republic of China, each entity established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements (as determined by the management) to the statutory surplus reserves (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the entity and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the entity.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**186,630**	163,169
Adjustments for:		
Bank interest income	**(4,329)**	(2,342)
Foreign exchange losses, net	**312**	13,171
Government grants recognised	**(13,832)**	(7,233)
Profit from construction and upgrade services of infrastructure	**(1,152)**	(1,006)
Depreciation and amortisation	**82,800**	50,391
Gains on disposal of property, plant and equipment, net	**–**	(17)
Impairment losses, net of reversal		
– on trade and other receivables	**408**	327
– on contract assets	**1,062**	–
Impairment losses on inventories	**2**	456
Finance costs	**37,236**	26,913
Operating cash flows before movements in working capital	**289,137**	243,829
Increase in inventories	**(2,315)**	(11,077)
Decrease (increase) in trade and other receivables and prepayments	**2,056**	(23,564)
Increase in amounts due from customers for contract work	**–**	(1,994)
Increase in contract assets	**(9,204)**	–
Decrease in receivables under service concession arrangements	**14,388**	11,294
(Decrease) increase in trade and other payables and advances from customers	**(10,607)**	74,565
Increase in contract liabilities	**50,831**	–
Increase in provisions	**46,890**	44,380
Cash generated from operations	**381,176**	337,433
Income tax paid	**(35,444)**	(31,872)
NET CASH FROM OPERATING ACTIVITIES	**345,732**	305,561

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Bank interest received	**4,329**	2,342
Payment of a tender deposit in respect of a wastewater treatment facility and pipeline network construction project	**(20,000)**	–
Purchases of property, plant and equipment, investment properties and construction and upgrade services of infrastructure	**(467,155)**	(416,903)
Government grants received	**37,508**	23,630
Proceeds on disposal of property, plant and equipment	**85**	34
Acquisitions of subsidiaries	**(46,024)**	–
Withdrawal of restricted bank balance	**–**	5,000
NET CASH USED IN INVESTING ACTIVITIES	**(491,257)**	(385,897)
FINANCING ACTIVITIES		
Acquisitions of additional equity interests from non-controlling interests in subsidiaries	**(71,133)**	–
Capital contributions by non-controlling shareholders of subsidiaries	**4,000**	408
Proceeds from new borrowings	**471,362**	245,000
Repayments of borrowings	**(306,843)**	(327,254)
Issue of new ordinary shares	**–**	398,995
Payment of interest expenses	**(33,634)**	(25,669)
Payment of listing expenses	**–**	(22,855)
Payment of 2017 final dividend	**(68,777)**	–
Dividends paid to non-controlling interests	**(1,990)**	(1,612)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(7,015)**	267,013
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(152,540)**	186,677
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**700,075**	526,569
Effect of foreign exchange rate changes	**146**	(13,171)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER,		
Represented by:		
Bank balances and cash	**547,681**	700,075

1. GENERAL

The Company was established in The People's Republic of China (the "PRC") on 31 July 2002 as a limited liability company under the Company Law of the PRC. On 25 December 2015, the Company was converted into a joint stock limited liability company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the provision of tap water supply and related installation service, wastewater treatment service and construction service.

The address of the registered office and the principal place of business of the Company is No. 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC. It was registered as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance (Cap. 622) on 12 September 2016.

In the opinion of the directors of the Company (the "Directors"), the Company's immediate and ultimate holding company is 瀘州市興瀘投資集團有限公司(Luzhou Xinglu Investment Group Co., Ltd.), which is established in the PRC as a limited liability company under the Company Law of the PRC.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries.

2. BASIS OF PREPARATION

The Group had net current liabilities of RMB194,414,000 as at 31 December 2018. In the opinion of the Directors, the financial information has been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations, undrawn banking facilities amounting to RMB1,061,888,000 available to the Group as at 31 December 2018 and new financing arrangement obtained subsequent to 31 December 2018 (note 47(b)).

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the Related Amendments*
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 IAS 28	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

In addition, the Group has early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.1 IFRS 15 Revenue form Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue* ("IAS 18"), IAS 11 *Construction Contracts* ("IAS 11") and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and IAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sale of tap water
- Provision of wastewater treatment operating services
- Installation services
- Construction and upgrade services of tap water supply and wastewater treatment infrastructure

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 6 and 4, respectively.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.1 IFRS 15 Revenue form Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15

There was no significant impact on the timing and amounts of revenue recognised upon adoption of IFRS 15.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2017**	**Reclassification**	**Carrying amounts under IFRS 15 at 1 January 2018***
		RMB'000	*RMB'000*	*RMB'000*
Current Assets				
Amounts due from customers for contract work	*(a)*	10,464	(10,464)	–
Contract assets	*(a)*	–	10,464	10,464
Current Liabilities				
Advances from customers and other payables	*(b)*	431,450	(120,517)	310,933
Contract liabilities	*(b)*	–	120,517	120,517

* The amounts in this column are before the adjustments from the application of IFRS 9.

Notes:

(a) In relation to installation services previously accounted under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. The amounts due from customers for contract work totaling to RMB10,464,000 were reclassified to contract assets.

(b) As at 1 January 2018, advances from customers of RMB120,517,000 in respect of installation service contracts before commencement of works previously included in advances from customers and other payables were reclassified to contract liabilities.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.1 IFRS 15 Revenue form Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the year then ended for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported*	Adjustment**	Amount without application of IFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Current Assets			
Amounts due from customers for contract work	–	19,668	19,668
Contract assets	19,668	(19,668)	–
Current Liabilities			
Advances from customers and other payables	356,404	176,350	532,754
Contract liabilities	176,350	(176,350)	–

* The amounts in this column are before the adjustments from the application of IFRS 9. As at 31 December 2018, the Group made impairment of RMB1,062,000 against its contract assets in accordance with IFRS 9.

** The nature of the adjustments is similar to the reclassification made to the carrying amounts previously reported at 31 December 2017.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.1 IFRS 15 Revenue form Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

Impact on the consolidated statement of cash flow

	As reported	**Adjustment ***	**Amount without application of IFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Increase in amounts due from customers for contract work	–	(9,204)	(9,204)
Increase in contract assets	(9,204)	9,204	–
(Decrease) increase in trade and other payables and advances from customers	(10,607)	50,831	40,224
Increase in contract liabilities	50,831	(50,831)	–
Cash generated from operations	381,176	(1,062)	380,114
Net cash from operating activities	345,732	(1,062)	344,670

* The nature of the adjustments is similar to the reclassification made to the carrying amounts previously reported at 31 December 2017.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and contract assets, and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

Accounting policies resulting from application of IFRS 9 are disclosed in note 4.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	**Available-for-sale investments**	**Equity instruments at fair value through other comprehensive income ("FVTOCI")**	**Deferred tax assets**	**FVTOCI reserve**	**Contract assets**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 – IAS 39		53,630	–	9,007	–	–
Effect arising from initial application of IFRS 15		–	–	–	–	10,464
Effect arising from initial application of IFRS 9:						
Reclassification:						
From available-for-sale investments	*(a)*	(53,630)	53,630	–	–	–
Remeasurement:						
From cost less impairment to fair value	*(a)*	–	4,461	(1,115)	3,346	–
Opening balance at 1 January 2018		–	58,091	7,892	3,346	10,464

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

Notes:

(a) Available-for-sale investments

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale investments, being unquoted equity investments of RMB53,630,000 previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, these unquoted equity investments were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gain of RMB4,461,000 relating to these unquoted equity investments previously carried at cost less impairment and RMB3,346,000 (such fair value gain net of deferred tax) and deferred tax charge of RMB1,115,000 were adjusted to equity instruments at FVTOCI, FVTOCI reserve and deferred tax assets as at 1 January 2018, respectively.

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit impaired under IAS 39, contract assets in respect of installation services and trade receivables in respect of wastewater treatment services and installation services have been assessed individually based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables of the customers and adjusted for forward-looking information that is available without undue cost or effort while trade receivables in respect of tap water supply are grouped because they are characterised as a large number of customers with insignificant amounts and similar credit risk and are assessed based on customers' ageing and historical observed default rates over the expected life of trade receivables of the customers and adjusted for forward-looking information that is available without undue cost or effort. The contract assets in respect of installation services relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables in respect of installation services for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets in respect of installation services on the same basis.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.2 IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9 (Continued)

Notes: (Continued)

(b) Impairment under ECL model (Continued)

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including other receivables, bank balances and receivables under concession service arrangements, are individually assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

Based on the assessment by the Directors, additional impairment loss on the Group's bank balances, contract assets, trade and other receivables and receivables under service concession arrangements recognised under IFRS 9 as at 1 January 2018 was insignificant.

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards and amendments

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards and amendments (Continued)

	31/12/2017 (Audited) *RMB'000*	IFRS 15 *RMB'000*	IFRS 9 *RMB'000*	**1/1/2018 (Restated)** ***RMB'000***
Non-current Assets				
Property, plant and equipment	37,320	–	–	**37,320**
Prepaid lease payments	77,778	–	–	**77,778**
Investment properties	13,071	–	–	**13,071**
Intangible assets	1,461,240	–	–	**1,461,240**
Prepayment for prepaid lease payments	4,000	–	–	**4,000**
Receivables under service concession arrangements	736,408	–	–	**736,408**
Available-for-sale investments	53,630	–	(53,630)	**–**
Equity instruments at fair value through other comprehensive income	–	–	58,091	**58,091**
Deferred tax assets	9,007	–	(1,115)	**7,892**
	2,392,454	–	3,346	**2,395,800**

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards and amendments (Continued)

	31/12/2017 (Audited) RMB'000	IFRS 15 RMB'000	IFRS 9 RMB'000	**1/1/2018 (Restated) RMB'000**
Current Assets				
Inventories	28,016	–	–	**28,016**
Receivables under service concession arrangements	14,493	–	–	**14,493**
Trade receivables	100,429	–	–	**100,429**
Amounts due from customers for contract work	10,464	(10,464)	–	**–**
Contract assets	–	10,464	–	**10,464**
Prepaid lease payments	1,764	–	–	**1,764**
Prepayments and other receivables	17,121	–	–	**17,121**
Bank balances and cash	700,075	–	–	**700,075**
	872,362	–	–	**872,362**
Current Liabilities				
Trade payables	21,752	–	–	**21,752**
Advances from customers and other payables	431,450	(120,517)	–	**310,933**
Contract liabilities	–	120,517	–	**120,517**
Tax liabilities	12,723	–	–	**12,723**
Borrowings	289,574	–	–	**289,574**
Provisions	4,902	–	–	**4,902**
	760,401	–	–	**760,401**
Net Current Assets	111,961	–	–	**111,961**
Total Assets Less Current Liabilities	2,504,415	–	3,346	**2,507,761**

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards and amendments (Continued)

	31/12/2017 (Audited) *RMB'000*	IFRS 15 *RMB'000*	IFRS 9 *RMB'000*	**1/1/2018 (Restated)** ***RMB'000***
Capital and Reserves				
Share capital	859,710	–	–	**859,710**
Share premium and reserves	926,530	–	3,346	**929,876**
Equity attributable to owners of the Company	1,786,240	–	3,346	**1,789,586**
Non-controlling interests	91,676	–	–	**91,676**
Total Equity	1,877,916	–	3,346	**1,881,262**
Non-Current Liabilities				
Deferred tax liabilities	12,615	–	–	**12,615**
Borrowings	313,185	–	–	**313,185**
Deferred income				
– government grants	145,036	–	–	**145,036**
Provisions	155,663	–	–	**155,663**
	626,499	–	–	**626,499**
	2,504,415	–	3,346	**2,507,761**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRSs 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to IFRSs below, the Directors anticipate that the application of all other new and amendments to IFRSs and the interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* ("IAS 17") and the related interpretation when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 16 *Leases* (Continued)

Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold land where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB116,000 as disclosed in note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 16 *Leases* (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB47,000 and refundable rental deposits received of RMB280,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* ("IFRIC 4") and not applying this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to IFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRS standards and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for equity instruments at fair value through other comprehensive income that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-Based Payment*, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets* ("IAS 36").

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each items of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represents the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3) (Continued)

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue from sale of tap water is recognised at a point in time when the Group has transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

Revenue from provision of wastewater treatment operating services is recognised at a point in time when the wastewater is treated.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Revenue from provision of installation services is derived from contracts with customers. Such contracts are entered into before the services begin. Under the term of contracts, the Group is contractually required to perform the services at the customers' specified sites that the Group's performance creates and enhances an asset that the customer controls as the Group performs. The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depicts the Group's performance in transferring control of goods or services.

Revenue from provision of construction and upgrade services of tap water supply and wastewater treatment infrastructure is derived from concession agreements with governmental bureau. Concession agreements are entered into before the construction and upgrade services begin. Under the term of concession agreements, the Group is contractually required to perform the construction and upgrade services at the locations specified by governmental bureau that the Group's performance creates and enhances an asset that the governmental bureau controls as the Group performs. The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depicts the Group's performance in transferring control of goods or services.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the Group transferred the construction and upgrade services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated services.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Revenue recognition (prior to application of IFRS 15)

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Sale of tap water

Sale of tap water is recognised when a Group has transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

Provision of services

Revenue from wastewater treatment operation, maintenance service and other services is recognised when service is rendered.

Dividend and interest income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors").

Under these service concession arrangements:

- the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and

- the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, or the infrastructure is used for its entire useful life under the arrangements, or the Group's practical ability to sell or pledge the infrastructure is restricted and the continuing right of use of the infrastructure is given to the Grantors throughout the period of the arrangements.

The Group's infrastructure includes leasehold land, buildings, plant and machinery that are acquired from the Grantors and/or are derecognised by the Group (when the Directors consider that the significant risks and rewards of these assets haven been passed to the Grantors) upon the service concession arrangements established.

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantors for the consideration paid and payable by the Group to the Grantors. The Group has unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public service and specified or determinable amounts.

The financial assets (receivables under service concession arrangement) are accounted for in accordance with the policy set out for financial assets at amortised cost under IFRS 9 or loans and receivables under IAS 39 below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service concession arrangements (Continued)

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

If the Group is paid for the consideration 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.

Operating services

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

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licences to maintain the wastewater treatment and water supply plants to a specified level of serviceability. These contractual obligations to maintain the wastewater treatment and water supply plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Construction and upgrade services

Revenue relating to construction or upgrade services of the existing or new infrastructure are recognised in accordance with the policy for "Revenue from contracts with customers" upon application of IFRS 15 above. Revenue and cost relating to construction or upgrade services of the existing or new infrastructure are recognised in accordance with the policy for "Construction contracts" (prior to application of IFRS 15) below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service concession arrangements (Continued)

Construction contracts (prior to application of IFRS 15)

When the outcome of a construction contract (including construction or upgrade services of the infrastructure under a service concession agreement) can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risk and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income, if any, in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Employee retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are recognised as an expense when employees have rendered service entitling them to the contributions as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The Group's intangible assets represent operating concessions and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Operating concessions is recognised on a straight-line basis over the tenure of the service concession arrangements. Further details of operating concessions are set out in "Service concession arrangements" above.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain and loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets in use with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that they may be impaired. The recoverable amounts of the relevant intangible assets yet put into operation and the tangible and intangible assets in use (if any indication exists) are estimated in order to determine the extent of the impairment loss (if any).

The recoverable amounts of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset is belonged to. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision, including those arising from the contractual obligation specified in the service concession arrangements and installation services, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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 that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 3) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost.

For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, expenses, gains and losses, net" line item in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including bank balances, trade and other receivables and receivables under service concession arrangements) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances or collectively using a provision matrix with appropriate groupings.

For all other instruments (including bank balances, other receivables and receivables under service concession arrangements), the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instruments' external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) (Continued)

(i) Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis as below:

- Nature of financial instruments (i.e. the Group's trade receivables in relation to tap water supply);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 3) (Continued)

(v) Measurement and recognition of ECL (Continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets, other receivables and receivables under service concession arrangements where the corresponding adjustment is recognised through a loss allowance account.

Classification and measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(i) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including receivables under service concession arrangements, trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable under service concession arrangement, trade or other receivable and bank balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities (including borrowings, trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying accounting policies (Continued)

Accounting for the Group's service concession arrangements under IFRIC 12 Service Concession Arrangements

Note 18 describes that the Group's service concession arrangements are accounted for as intangible assets and/or financial assets (receivables under service concession arrangements) in accordance with IFRIC 12 because, in the opinion of the Directors, the Group's service concession arrangements contain the following:

- the grantors control or regulate the tap water supply and wastewater treatment services the Group must provide with the infrastructure, to whom the Group must provide such services, and at prices regulated by the grantors;

- the entire life of each infrastructure is used in the Group's service concession arrangements for providing tap water supply and wastewater treatment service; and

- the grantors restrict the Group's practical ability to sell or pledge the infrastructure that give the grantors continuing right of use throughout the period of the arrangement.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next twelve months.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

(a) Impairment test on intangible assets recognised under service concession arrangements that have yet to be in operation

Included in the intangible assets of the Group as at 31 December 2018 are intangible assets recognised under service concession arrangements of RMB578 million (2017: RMB323 million) that have yet to be in operation and which have been allocated to individual cash generating units ("CGUs") in tap water supply and wastewater treatment segments. Determining whether such intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which the intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and suitable discount rates in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts, circumstances and the existing government policies, including preferential tax treatment, applicable to the relevant operation which result in downward revision of future cash, a material impairment loss may arise. At the end of the reporting period, no impairment loss was considered to be recognised. Details of the recoverable amount calculation are disclosed in note 18.

(b) Estimated impairment of goodwill

As at 31 December 2018, the carrying amount of goodwill is RMB25,278,000 (31 December 2017: Nil). Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts, circumstances and the existing government policies, applicable to the relevant operation which result in downward revision of future cash, a material impairment loss may arise. At the end of the reporting period, no impairment loss was considered to be recognised. Details of the recoverable amount calculation are disclosed in note 19.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty (Continued)

(c) Provision of ECL for trade and other receivables, contract assets and receivables under service concession arrangements

The Group uses provision matrix to calculate ECL for the trade and other receivables, contract assets and receivables under service concession arrangements. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's internal credit rating, customers' ageing and historical default rates taking into consideration forward-looking information that is reasonable and supportable and is available without undue costs or effort. At every reporting date, the internal credit rating and historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 40(b) respectively.

(d) Provisions for maintenance of infrastructure under service concession arrangements

The Group has contractual obligations that it must fulfill as a condition of its licence to maintain the infrastructure to a specified level of serviceability during the service concession arrangements. These contractual obligations to maintain infrastructure, except for any upgrade element, shall be recognised and measured in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* ("IAS 37") at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period in the consolidated statement of financial position. Should the payments and timing to settle the expenditure differ from the estimates, the provisions recognised in the consolidated statement of financial position at the end of the reporting period and the amount to be charged to the profit or loss will be changed.

(e) Fair value measurement of financial instruments

Equity instruments at FVTOCI, amounting to RMB57,273,000 as at 31 December 2018, are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40(c) for further disclosures.

6. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2018 RMB'000	2017 RMB'000
Type of services		
Tap water supply		
– Tap water	**235,619**	207,391
– Installation services	**282,953**	215,768
– Construction and upgrade services of tap water supply infrastructure	**357,108**	452,156
	875,680	875,315
Wastewater treatment		
– Operating services	**194,081**	151,746
– Construction and upgrade services of wastewater treatment infrastructure	**108,135**	19,021
	302,216	170,767
Revenue from contracts with customers	**1,177,896**	1,046,082
Wastewater treatment		
– Interest income on receivables under service concession arrangements	**40,310**	35,662
Revenue	**1,218,206**	1,081,744
Timing of revenue recognition		
At a point in time	**429,700**	359,137
Over time	**748,196**	686,945
	1,177,896	1,046,082
Type of customer		
Government	**662,865**	622,923
Non-government	**515,031**	423,159
	1,177,896	1,046,082

The Group's above revenue are derived from the PRC.

6. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers

Revenue from sale of tap water is recognised at a point in time when the Group has transmitted to the customers and the customers have accepted the water at the relevant tariff rates, which are regulated and subject to periodic review by the local governmental authorities, and collectability of the related receivables is reasonably assured. According to the relevant tap water supply agreements and concession agreements, the Group is required to provide users with tap water to meet the tap water supply quality requirements as specified by the relevant governmental bureau. Payments of transaction price for sale of tap water are agreed at the point when the customers accepted the water and are normally settled in one month according to the relevant sales agreements, and some customers pay in advance.

Revenue from provision of wastewater treatment operating services is recognised at a point in time when the wastewater has been treated based on meter reading of monthly volume of wastewater treated at the relevant tariff rates, which are regulated and subject to periodic review by the local governmental authorities, and collectability of the related receivables is reasonably assured. Where the service concession arrangements provide the Group with a guarantee of minimum volume of wastewater treated, the Group recognises wastewater treatment operating services revenue based on the higher of the actual volume and the guaranteed minimum volume of the wastewater treated, less the amount of receivables under service concession arrangements attributable to the guaranteed minimum volume of the wastewater treated. According to the relevant concession agreements, the Group is required to ensure the wastewater treated to meet pollutant emission standards as specified by the relevant governmental bureau. Payments of transaction price for provision of wastewater treatment operating services are agreed at the point when the wastewater has been treated and are usually settled in three months according to the service concession arrangements.

6. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers (Continued)

Revenue from provision of installation services is derived from fixed-price contracts with customers, such as landlords, construction companies and tap water users in the PRC. Such contracts are entered into before the services begin. Under the terms of contracts, the Group is contractually required to perform the installation services at the customers' specified sites that the Group's performance creates and enhances an asset that the customers control as the Group performs. The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue over time on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depicts the Group's performance in transferring control of services. These construction contracts include payment schedules which require stage payments over the installation period once certain specified milestones are reached and usually require the customers to make upfront payments before installation services commence, and it gives rise to the contract liabilities until revenue recognised on the specific contract exceeds the amount of deposit. According to the relevant agreements with the customers, the Group is required to provide repairs to fix up quality problems, if any. A contract asset, net of contract liability related to the same contract, is recognised over the period in which the installation services are performed representing the Group's right to consideration for the services performed because the rights are conditional on the Group's future performance in achieving specified milestones in the contracts. The contract assets are transferred to trade receivables when the rights become unconditional, being the milestones in the contracts for unconditional payments except for passage of time are reached.

Revenue from provision of construction and upgrade services of tap water supply and wastewater treatment infrastructure is derived from the service concession agreements with the relevant PRC governmental authorities. During the construction and upgrade, the Group recognises revenue at fair value of consideration for the construction and upgrade services of tap water supply and wastewater treatment infrastructure delivered over time on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depicts the Group's performance in transferring control of services. The fair value of consideration for the construction and upgrade services delivered by the Group is estimated at the construction costs incurred plus an appropriate profit margin, which is determined by the Directors with reference to the gross profit margins of comparable companies in the relevant years. Such revenue forms part of the cost of construction of new infrastructure or upgrade to existing infrastructure under the service concession arrangements. According to the relevant concession agreements, the Group is required to construct and upgrade the infrastructure to meet the relevant technology standards as specified by the relevant governmental bureau. Where the service concession arrangement provides the Group with a guarantee of minimum volume of services rendered (the "Guarantee"), the Group recognises the revenue for the construction and upgrade services directly attributable to the Guarantee based on the aforesaid fair value by discounting at an appropriate discount rate to take into account the significant financing component in the transaction and the Group correspondingly increases its contract asset which is transferred to receivables under service concession arrangements upon completion of the construction and upgrade services.

Interest income on receivables under service concession arrangements is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

6. REVENUE (CONTINUED)

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

As at 31 December 2018, the Group had aggregate amount of the transaction price allocated to remaining performance obligations (unsatisfied or partially unsatisfied) of installation services of RMB295,935,000, which will be recognised as revenue during the year ending 31 December 2019.

In addition to the above, the Group has the obligation of ongoing construction and upgrade of tap water supply and wastewater treatment infrastructure. As at 31 December 2018, the Group has contracted capital commitment of such infrastructure work, as disclosed in note 42. Such infrastructure work will be recognised as revenue at fair value of the consideration for the construction and upgrade services during the two years ending 31 December 2020.

7. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker ("CODM"), during the year, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply, installation, related construction and upgrade services

- Wastewater treatment – provision of wastewater treatment services and related construction and upgrade services

The tap water supply segment includes the Company and its certain subsidiaries mainly providing tap water supply, installation, related construction and upgrade services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, "Tap water supply segment", because, in the opinion of the Directors, they have similar economic characteristics and provide tap water supply, installation, related construction and upgrade services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

	2018 RMB'000	2017 RMB'000
Segment revenue		
Tap water supply		
– From external customers		
– Tap water	**235,619**	207,391
– Installation services	**282,953**	215,768
– Construction and upgrade services of tap water supply infrastructure	**357,108**	452,156
– Inter-segment sales*		
– Tap water	**413**	408
Wastewater treatment		
– From external customers		
– Operating service	**194,081**	151,746
– Interest income on receivables under service concession arrangements	**40,310**	35,662
– Construction and upgrade services of wastewater treatment infrastructure	**108,135**	19,021
Elimination*	**(413)**	(408)
Revenue	**1,218,206**	1,081,744
Segment results		
– Tap water supply**	**94,834**	73,059
– Wastewater treatment	**72,408**	77,352
Unallocated expenses	**–**	(7,722)
Profit after tax	**167,242**	142,689

* Inter-segment sales for the years ended 31 December 2017 and 2018 were conducted at terms mutually agreed among the companies comprising the Group.

** Based on the CODM's consideration, corporate expenses such as auditors' remuneration, directors' emoluments, other legal and professional fees are allocated to tap water supply segment.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of the listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

7. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

	2018	2017
	RMB'000	*RMB'000*
Segment assets		
– Tap water supply	**2,543,970**	2,114,395
– Wastewater treatment	**1,267,867**	1,150,461
Elimination	**–**	(40)
Consolidated total assets	**3,811,837**	3,264,816
Segment liabilities		
– Tap water supply	**1,281,946**	881,958
– Wastewater treatment	**572,980**	504,982
Elimination	**–**	(40)
Consolidated total liabilities	**1,854,926**	1,386,900

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments.

Other segment information

Amounts included in the measure of segment profit and segment assets:

	2018	2017
	RMB'000	*RMB'000*
Interest income		
– Tap water supply	**3,296**	1,887
– Wastewater treatment	**41,343**	36,117
	44,639	38,004

7. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

Amounts included in the measure of segment profit and segment assets: (Continued)

	2018	2017
	RMB'000	*RMB'000*
Finance costs		
– Tap water supply	**(19,882)**	(9,986)
– Wastewater treatment	**(17,354)**	(16,927)
	(37,236)	(26,913)
Depreciation and amortisation		
– Tap water supply	**(73,845)**	(43,132)
– Wastewater treatment	**(8,955)**	(7,259)
	(82,800)	(50,391)
(Impairment losses) reversal of impairment losses on trade and other receivables		
– Tap water supply	**59**	(280)
– Wastewater treatment	**(467)**	(47)
	(408)	(327)
Impairment losses on contract assets		
– Tap water supply	**(1,062)**	–
Gains on disposal of property, plant and equipment, prepaid lease payments and investment properties		
– Tap water supply	**–**	17
Income tax expense		
– Tap water supply	**(8,858)**	(13,197)
– Wastewater treatment	**(10,530)**	(7,283)
	(19,388)	(20,480)

7. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

Amounts included in the measure of segment profit and segment assets: (Continued)

	2018 *RMB'000*	2017 *RMB'000*
Provisions for maintenance of infrastructure under service concession arrangements		
– Tap water supply	**(21,344)**	(26,268)
– Wastewater treatment	**(29,805)**	(32,326)
	(51,149)	(58,594)
Additions to non-current assets (other than goodwill, financial instruments and deferred tax assets)		
– Tap water supply	**(548,287)**	(455,398)
– Wastewater treatment	**(21,771)**	(22,900)
	(570,058)	(478,298)
Additions to non-current assets – goodwill		
– Tap water supply	**25,278**	–

The Group's revenue from its major products and services are set out in note 6.

Geographical information

The Group's operation is in the PRC and all its non-current assets other than financial instruments and deferred tax assets are situated in the PRC.

7. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Customer A		
– Operating service*	**–**	116,564
– Interest income on receivables under service concession arrangements*	**–**	27,941
– Construction and upgrade services of infrastructure **	**380,571**	415,737
Customer B		
– Operating service*	**139,811**	–
– Interest income on receivables under service concession arrangements*	**32,254**	–

* Revenue generated from operating service and interest income on receivables under service concession arrangements from Customer B (2017: Customer A) are related to wastewater treatment. According to notice of Luzhou government, Customer B took over the duty of monitoring and verifying wastewater treatment services provided by 瀘州市興瀘污水處理有限公司(Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("Xinglu Wastewater Treatment") from customer A since 1 January 2018.

** Revenue generated from construction and upgrade services of infrastructure from Customer A are related to both tap water supply segment and wastewater treatment segment.

8. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

	2018	2017
	RMB'000	*RMB'000*
Value-added-tax ("VAT") refunds *(Note (a))*	**14,753**	17,815
Deferred income in respect of government grants recognised	**13,832**	7,233
Bank interest income	**4,329**	2,342
Late charges on tap water users	**3,167**	2,422
Rental income less outgoings	**663**	864
Commission income on garbage fees collected for governmental bureau	**300**	262
Gains on disposal of property, plant and equipment, net	**–**	17
Sewage charges	**(131)**	(116)
Donations	**(183)**	(264)
Foreign exchange losses, net	**(9,684)**	(17,581)
Others *(Note (b))*	**2,957**	2,077
	30,003	15,071

Notes:

a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards.

b. Others mainly include water quality inspection fees, gain or loss on sale of sanitary ware, other equipment and materials, etc.

9. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 *RMB'000*	2017 *RMB'000*
Impairment losses, net of reversal, recognised on:		
– Trade and other receivables	**(408)**	(327)
– Contract assets	**(1,062)**	–
	(1,470)	(327)

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

10. FINANCE COSTS

	2018 *RMB'000*	2017 *RMB'000*
Interest on bank borrowings	**30,549**	23,231
Interest on other borrowings	**3,085**	2,438
Unwinding of the discount *(Note 35)*	**7,291**	5,427
	40,925	31,096
Less: Amount capitalised in qualified assets	**(3,689)**	(4,183)
	37,236	26,913

11. INCOME TAX EXPENSE

	2018 *RMB'000*	2017 *RMB'000*
Current year	**40,396**	24,959
Overprovision in prior years	**(609)**	(1,569)
Current tax	**39,787**	23,390
Deferred tax *(Note 23)*	**(20,399)**	(2,910)
Total income tax recognised in profit or loss	**19,388**	20,480

11. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT law, the tax rate of the subsidiaries is 25% for both years, except for the following group entities:

Name of company	**Applicable EIT rate**	**Financial years**
The Company*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) ("Beijiao Water")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.) ("Heijiang Water")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.) ("Jiangnan Water")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.) ("Naxi Water")*	15%	Years ended 31 December 2017 and 2018
瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ("Nanjiao Water")*	15%	Years ended 31 December 2017 and 2018
瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) ("Sitong Engineering")*	15%	Years ended 31 December 2017 and 2018
瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Wastewater Treatment Co., Ltd.) ("Xinglu Wastewater Treatment")*/**	Nil or 15%	Years ended 31 December 2017 and 2018
瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("Sitong Design") *	15%	Years ended 31 December 2017 and 2018
瀘州市興合水環境治理有限公司 ("Luzhou Xinghe Water Governance Co., Ltd.") ("Xinghe Water")*	15%	Period ended 31 December 2018
威遠清溪水務有限公司 ("Weiyuan Qingxi Water Co., Ltd.") ("Weiyuan Qingxi Water")*	15%	Year ended 31 December 2018
威遠城市供排水安裝工程有限公司("Weiyuan City Water Supply and Drainage Installation Engineering Co., Ltd.") ("Weiyuan Installation Company")*	15%	Year ended 31 December 2018

11. INCOME TAX EXPENSE (CONTINUED)

* According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. During the years ended 31 December 2017 and 2018, the aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business for the period/years ended 31 December 2017 and 2018 accounted for more than 70% of their total revenue in these period/years, and therefore enjoy the preferential EIT rate of 15%.

** According to the Article 88 of Regulation for Implementation of Enterprise Income Tax of the PRC, two of the wastewater treatment plants of Xinglu Wastewater Treatment, namely Chengdong Wastewater Treatment Plant ("Chengdong") and Chengnan Wastewater Treatment Plant ("Chengnan"), are entitled to be exempted from EIT in respect of the income generated by them for the first to third years and allowed a fifty percent reduction in the fourth to sixth years beginning from the first year of commercial production and operation. As Xinglu Wastewater Treatment got the acknowledgement from the tax authority for the qualification for preferential EIT rate in April 2017, the EIT rates of Chengdong and Chengnan are nil for the years ended 31 December 2017 and 2018.

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 *RMB'000*	2017 *RMB'000*
Profit before tax	**186,630**	163,169
Tax at PRC EIT rate of 15% *(Note)*	**27,995**	24,475
Tax effect of expenses not deductible for tax purpose	**271**	932
Effect of tax exemption granted to Xinglu Wastewater Treatment	**(1,052)**	(2,961)
Effect of change in applicable tax rate on deferred tax in respect of installation revenue previously recognised	**(3,802)**	–
Effect of different applicable tax rate on deferred tax in respect of installation revenue	**–**	1,158
Effect of different applicable tax rate on deferred tax in respect of provision for maintenance of infrastructure under service concession arrangements	**(5,432)**	(5,417)
Effect of different applicable tax rate on deferred tax in respect of intangible assets and receivables under service concession arrangements	**1,945**	3,838
Effect of different applicable tax rates of subsidiaries	**72**	24
Overprovision in prior years	**(609)**	(1,569)
Income tax expense	**19,388**	20,480

Note: For the years ended 31 December 2018 and 2017, the PRC EIT rate of 15% is applicable to the Company and most of its subsidiaries that account for substantial operation of the Group.

12. PROFIT BEFORE TAX

	2018 ***RMB'000***	2017 *RMB'000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**6,030**	5,160
Depreciation of investment properties	**449**	449
Amortisation of intangible assets	**74,590**	43,081
Amortisation of prepaid lease payments	**1,731**	1,701
Total depreciation and amortisation	**82,800**	50,391
Auditors' remuneration	**3,630**	2,100
Write-down of inventories	**2**	456
Staff costs (including the Directors' and supervisors' remuneration as disclosed in note 13 below):		
– Salaries, wages and welfare	**121,511**	98,650
– Retirement benefit scheme contributions	**20,544**	18,024
Total staff costs	**142,055**	116,674
and after crediting:		
Gross rental income from investment properties	**1,124**	1,323
Less: Direct operating expenses incurred for investment properties that generated rental income	**(461)**	(459)
	663	864

13. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and supervisors

Details of the emoluments paid to the Directors and supervisors during the year are as follows:

		Other emoluments			
	Fees *RMB'000*	Salaries, wages, allowance and others *RMB'000*	Performance related incentive payments *(note (c))* *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
2018					
Executive Directors					
Mr. Zhang Qi*	–	175	380	94	649
Mr. Liao Xing Yue	–	168	374	94	636
Mr. Wang Jun Hua	–	140	301	94	535
Non-Executive Directors					
Mr. Chen Bing	–	–	–	–	–
Ms. Xu Yan	–	–	–	–	–
Mr. Xie Xin	–	–	–	–	–
Independent non-executive Directors					
Mr. Gu Ming'an	84	–	–	–	84
Mr. Lin Bing	84	–	–	–	84
Mr. Cheng Hok Kai, Frederick	100	–	–	–	100
Supervisors					
Ms. Qu Mei	–	–	–	–	–
Mr. Zhu Yu Chuan	–	119	60	75	254
Mr. Xu Ke	–	–	–	–	–
Ms. Huang Mei	–	129	355	94	578
Ms. Xiang Min	–	117	70	83	270
Mr. Xuan Ming	–	50	–	–	50
Mr. Xiong Hua	–	50	–	–	50
	268	948	1,540	534	3,290

13. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors and supervisors (Continued)

		Other emoluments			
	Fees	Salaries, wages, allowance and others	Performance related incentive payments *(note (c))*	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2017					
Executive Directors					
Mr. Zhang Qi*	–	297	226	83	606
Mr. Liao Xing Yue	–	256	169	83	508
Mr. Wang Jun Hua	–	204	158	83	445
Non- Executive Directors					
Mr. Chen Bing	–	–	–	–	–
Mr. Yang Rong Gui *(Note (a))*					
Ms. Xu Yan	–	–	–	–	–
Mr. Xie Xin *(Note (a))*	–	–	–	–	–
Independent non-executive Directors					
Mr. Gu Ming'an *(Note (b))*	75	–	–	–	75
Mr. Lin Bing *(Note (b))*	75	–	–	–	75
Mr. Cheng Hok Kai, Frederick *(Note (b))*	89	–	–	–	89
Supervisors					
Ms. Qu Mei	–	–	–	–	–
Mr. Zhu Yu Chuan	–	84	59	63	206
Mr. Xu Ke	–	–	–	–	–
Ms. Huang Mei	–	227	181	83	491
Ms. Xiang Min	–	100	29	65	194
Mr. Xuan Ming *(Note (b))*	–	–	–	–	–
Mr. Xiong Hua *(Note (b))*	–	–	–	–	–
	239	1,168	822	460	2,689

* Mr. Zhang Qi is the Chairman of the Company.

13. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors and supervisors (Continued)

The emoluments of the executive directors, independent non-executive directors and supervisors shown above were for their management services rendered to the Group.

Notes:

(a) Mr. Yang Rong Gui resigned as a non-executive director and Mr. Xie Xin was appointed as a non-executive director on 12 September 2017.

(b) They were appointed on 31 March 2017.

(c) The performance related incentive payments are determined by reference to the individual performance of the Directors and supervisors and approved by the Remuneration Committee (composed of an executive Director and two independent non-executive Directors).

Mr. Liao Xing Yue is the general manager of the Company for the two years ended 31 December 2018 and he assumes the role of the chief executive. His emoluments disclosed above included his services rendered as the general manager of the Company.

Employees

Of the five individuals with the highest emoluments in the Group, 4 individuals (2017: 3 individuals) were executive Directors and supervisors whose emoluments for the year ended 31 December 2018 are included in the disclosure above and the emoluments of the remaining 1 individual (2017: 2 individual) are as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries, wages, allowance and others	**129**	465
Retirement benefit scheme contributions	**94**	165
Performance related incentive payments	**354**	384
	577	1,014

13. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Employees (Continued)

The emoluments of the above employees are within the following band:

	2018	2017
	(Number of employees)	
Less than HK$1,000,000	**1**	2

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to any Directors nor supervisors as an inducement to join or upon joining the Group or as compensation for loss of office and none of the Directors nor supervisors waived any emoluments.

14. DIVIDENDS

A final dividend of RMB68,777,000 or RMB0.08 (2017: Nil) per share (tax inclusive) in respect of the year ended 31 December 2017 was declared and fully paid to the shareholders of the Company during the year ended 31 December 2018.

Subsequent to the end of the reporting period, a final dividend of RMB51,583,000 or RMB0.06 per share (tax inclusive) in respect of the year ended 31 December 2018 (2017: final dividend of RMB68,777,000 or RMB0.08 per share (tax inclusive) in respect of the year ended 31 December 2017) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

15. EARNINGS PER SHARE

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

	2018	2017
Profit for the year attributable to the owners of the Company *(RMB'000)*	**154,065**	131,298
Weighted average number of ordinary shares issued *('000)*	**859,710**	812,065

15. EARNINGS PER SHARE (CONTINUED)

During the year ended 31 December 2017, the computation of diluted earnings per share did not assume the exercise of the over-allotment option granted by the Company in relation to the Global Offering (as defined in note 36(a)) because the exercise price of the over-allotment option was higher than the average market price for the Company's shares during the life of the over-allotment option.

No diluted earnings per share is presented for the year ended 31 December 2018 as the Company and its subsidiaries did not have potential ordinary shares outstanding.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and office equipment	Motor vehicles	Office furniture and fixtures	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 1 January 2017	18,815	32,226	15,912	4,524	71,477
Additions	95	2,686	620	2,094	5,495
Disposals	–	(217)	(211)	–	(428)
At 31 December 2017	18,910	34,695	16,321	6,618	76,544
Additions from acquisition of subsidiaries	1,580	1,681	709	–	3,970
Additions	–	2,345	1,588	811	4,744
Disposals	–	(106)	(1,112)	–	(1,218)
At 31 December 2018	**20,490**	**38,615**	**17,506**	**7,429**	**84,040**
Accumulated depreciation					
At 1 January 2017	(7,007)	(13,836)	(11,231)	(2,401)	(34,475)
Provided for the year	(722)	(2,142)	(1,214)	(1,082)	(5,160)
Eliminated on disposals	–	205	206	–	411
At 31 December 2017	(7,729)	(15,773)	(12,239)	(3,483)	(39,224)
Provided for the year	(745)	(2,887)	(1,192)	(1,206)	(6,030)
Eliminated on disposals	–	66	1,067	–	1,133
At 31 December 2018	**(8,474)**	**(18,594)**	**(12,364)**	**(4,689)**	**(44,121)**
Carrying amounts					
At 31 December 2018	**12,016**	**20,021**	**5,142**	**2,740**	**39,919**
At 31 December 2017	11,181	18,922	4,082	3,135	37,320

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The property, plant and equipment are depreciated on a straight-line basis based on their estimated useful lives of the following years, after taking into account the estimated residual value of 3% to 5%:

Buildings	10–50 years
Machinery and office equipment	3–10 years
Motor vehicles	5–10 years
Office furniture and fixtures	3–10 years

17. INVESTMENT PROPERTIES

	RMB'000
Cost	
At 1 January 2017	17,405
Additions	161
At 31 December 2017 and 2018	**17,566**
Accumulated depreciation	
At 1 January 2017	(4,046)
Provided for the year	(449)
At 31 December 2017	(4,495)
Provided for the year	(449)
At 31 December 2018	**(4,944)**
Carrying amounts	
At 31 December 2018	**12,622**
At 31 December 2017	13,071

The investment properties are situated in the PRC held under medium term leases and are depreciated on a straight-line basis between 20 and 30 years, after taking into account the estimated residual value of 3% to 5%.

18. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and prepaid lease payments of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for the period of 30 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements, and arrangements for arbitrating disputes.

As further explained in the accounting policy for "Service concession arrangements" set out in note 4, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

In August 2001 and August 2002, the Luzhou City Government issued two meeting minutes designating the Group as the tap water supply service provider in Lu County area. In March 2016, the Group further entered into a concession agreement with Lu County Housing and Urban-rural Planning and Development Bureau which confirmed that the Group has necessary qualifications and rights to conduct tap water supply service in Lu County area from January 2005 to January 2035.

In September 2003, the Group entered into a share purchase agreement with Hejiang County Government which agreed to grant the Group the exclusive concession right to provide tap water supply service in Hejiang County area and applicable beneficial treatments for urban public utility service providers. In April 2016, the Group further entered into a concession agreement with Hejiang County Government which confirmed that the Group has the necessary qualifications and rights to conduct tap water supply service in Hejiang County area since the time the Group started to provide such services in Hejiang County area and the concession agreement also expressly sets forth that the terms of the concession rights granted to the Group are for the concession period from September 2003 to September 2033.

In June 2005, the Group entered into a concession agreement with Luzhou Planning and Development Bureau for tap water supply operations in Luzhou urban area. In March 2016, the Group further entered into supplementary agreement to the concession agreement to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

In April 2018, the Group entered into a concession agreement with Water Resources Bureau of Jiangyang District of Luzhou Municipality (瀘州市江陽區水務局) for tap water supply operations in township streets and rural areas in Jiangyang District.

In September 2018, the Company entered into an equity transfer agreement dated 21 September 2018 with independent third parties, pursuant to which, the Company acquired 60% equity interest in Weiyuan Qingxi Water. Weiyuan Qingxi Water has entered into a concession agreement with Water Resources Bureau of Weiyuan County of Neijiang Municipality (內江市威遠縣水務局) for tap water supply operations in Weiyuan County area.

Based on the above, the Directors determined that the Group entered into service concession arrangements with the aforesaid relevant governmental authorities to provide tap water supply in Luzhou urban area, Lu County area, Hejiang County area, Jiangyang District and Weiyuan County area commencing from the respective dates of the concession agreements. Upon the respective service concession arrangements established, the then relevant property, plant and equipment and prepaid lease payments were derecognised and they were recognised as intangible assets at fair value of these property, plant and equipment and prepaid lease payment as at corresponding dates. Besides, during the Service Concession Period, the Group also constructs/upgrades certain tap water supply infrastructure in Luzhou urban area, Lu County area, Hejiang County area, Jiangyang District and Weiyuan County area to expand its tap water supply capacity and recognises the fair value of the construction cost as intangible assets.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Details of the Group's service concession arrangements for providing tap water supply are as follows:

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan county area	Jiangyang District area
Term of concession rights	30 years, from 6 June 2005 to 6 June 2035.	30 years, from 1 January 2005 to 1 January 2035.	30 years, from 24 September 2003 to 23 September 2033.	30 years, from 1 July 2006 to 30 June 2035.	30 years, from 30 September 2018 to 30 September 2048
Rights to use specific assets	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.	All relevant tap water supply infrastructure.	All relevant tap water supply Infrastructure.	All relevant tap water supply infrastructure.
Pricing	Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:	Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:	Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:	Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:	Initial unit prices for different types of end users are set out in the concession agreement. The Group shall be entitled to:
	• apply for adjustments to the retail water prices in the event the Group cannot maintain minimal profit in its tap water supply operations due to changes on production costs or objective conditions; and	• apply for adjustments to the retail water prices in the event the Group cannot maintain profit in its tap water supply operations; and	• apply for adjustments to the retail water prices in the event the Group suffers loss due to irresistible objective conditions; and	• apply for adjustments to the retail water prices in the event the Group suffers loss due to irresistible objective conditions; and	• apply for adjustments to the retail water prices in the event the Group cannot maintain minimal profit in its tap water supply operations due to changes on production costs or objective conditions; and
	• reasonable compensation for losses incurred due to government policies in relation to public interest.	• reasonable compensation for losses incurred due to government policies in relation to public interest.	• reasonable compensation for losses incurred due to government policies in relation to public interest.	• reasonable compensation for losses incurred due to government policies in relation to public interest.	• reasonable compensation for losses incurred due to government policies in relation to public interest.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan county area	Jiangyang District area
Responsibilities	During the concession period, the Group shall:	During the concession period, the Group shall:	During the concession period, the Group shall:	During the concession period, the Group shall:	During the concession period, the Group shall:
	• ensure uninterrupted tap water supply to end users;	• ensure uninterrupted tap water supply to end users;	• ensure uninterrupted tap water supply to end users;	• ensure uninterrupted tap water supply to end users;	• ensure uninterrupted tap water supply to end users;
	• maintain water supply infrastructure;	• maintain water supply infrastructure;	• maintain water supply infrastructure;	• maintain water supply infrastructure	• maintain water supply infrastructure
	• monitor the quality of raw water source;	• monitor the quality of raw water source;	• monitor the quality of raw water source;	• monitor the quality of raw water source;	• monitor the quality of raw water source;
	• perform meter readings; and	• perform meter readings; and	• perform meter readings; and	• perform meter readings; and	• perform meter readings; and
	• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.	• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.	• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.	• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.	• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	**Lu County area**	**Hejiang County area**	**Weiyuan county area**	**Jiangyang District area**
Terms of termination	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):	Upon expiry of concession period or in the event of the Group's default, including (amongst others):
	• asset disposal without permission;	• asset disposal without permission;	• fund raising activities not in compliance with the relevant provisions that resulted in unauthorised asset pledge or disposal;	• asset disposal without permission;	• asset disposal without permission;
	• material adverse impact on public interest and safety due to close of business without permission;	• material adverse impact on public interest and safety due to close of business without permission;	• material adverse impact on public interest and safety due to close of business without permission;	• material adverse impact on public interest and safety due to close of business without permission;	• material adverse impact on public interest and safety due to close of business without permission;
	• material quality or safety accidents; or	• material quality or safety accidents; or	• material quality or safety accidents; or	• material quality or safety accidents; or	• material quality or safety accidents; or
	• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.	• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.	• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.	• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.	• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Hejiang County area	Weiyuan county area	Jiangyang District area
Rights to receive specified assets at the end of the concession period	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any	Infrastructure remained (previously invested by the Group before the concession agreement entered into in April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of the concession period, if any, will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.
Terms of renewal	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory and the Group offers the same conditions as other bidders.	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

In October 2011, the Group entered into a service agreement with the People's Government of Xuyong County that sets forth the grant of concession right to the Group to provide wastewater treatment service in Xuyong County area.

In August 2012, the Group entered into a service agreement with Naxi District Government for the grant of concession right to the Group to provide wastewater treatment service in Naxi District. In May 2014, the Group entered into a concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau that confirmed the Group's concession right to cover the provision of wastewater treatment service in Jiangyang District, Longmatan District and Naxi District for the period from 1 January 2013 to 31 December 2042.

In March 2016, the Group entered into a supplemental agreement to the aforesaid concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

In February 2013, the Group entered into a service agreement with Lu County Urban-rural Environmental and Health Bureau that sets forth the grant of concession right to the Group to provide wastewater treatment service in Lu County area.

In April 2014, the Group entered into a service agreement with the People's Government of Hejiang County that sets forth the grant of concession right to the Group to provide wastewater treatment service in Hejiang County area.

In July 2014, the Group entered into a service agreement with the People's Government of Gulin County that sets forth the grant of concession right to the Group to provide wastewater treatment service in Gulin County area.

In March and April 2016, the Group further entered into concession agreements with the People's Government of Xuyong County, Lu County Urban-rural Environmental and Health Bureau, the People's Government of Hejiang County and the People's Government of Gulin County to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Based on the above, the Directors determined that the Group entered into service concession arrangements with the aforesaid relevant government authorities to provide wastewater treatment service in Luzhou urban area, Lu County area, Gulin County area, Xuyong County area and Hejiang County area in January 2013, February 2013, August 2014, March 2012 and May 2014, respectively. Except for the service concession arrangements for Luzhou urban area (excluding Naxi District), the Group paid for the relevant infrastructure in Lu County area, Gulin County area, Xuyong County area, Hejiang County area and Naxi District and recognised as both receivables under service concession arrangements and intangible assets. The then relevant property, plant and equipment of the Group for Luzhou urban area (excluding Naxi District) were derecognised and both receivables under service concession arrangements and intangible assets were recognised by the Group at fair value of these property, plant and equipment upon establishment of the service concession arrangement. Besides, during the Service Concession Period, the Group also constructs certain new wastewater treatment infrastructure in Luzhou urban area to expand its wastewater treatment capacity and recognises construction work at fair value and classifies the portion representing the extent that the Group has a contractual right to receive cash from grantors as receivables under service concession agreements when the Group is entitled to the minimum wastewater treatment volume guaranteed according to the relevant service concession agreements. Details of the Group's service concession arrangements for providing wastewater treatment service are as follows:

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	**Lu County area**	**Gulin County area**	**Xuyong County area**	**Hejiang County area**
Term of concession rights	30 years, from 1 January 2013 to 31 December 2042.	30 years, from 1 February 2013 to 31 January 2043.	30 years, from 1 August 2014 to 31 July 2044.	30 years, from 1 March 2012 to 28 February 2042.	30 years, from 1 May 2014 to 30 April 2044.
Rights to use specific assets	All relevant wastewater treatment infrastructure.	All relevant wastewater treatment infrastructure.	All relevant wastewater treatment infrastructure	All relevant wastewater treatment infrastructure.	All relevant wastewater treatment infrastructure.
Pricing	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Routine review of wastewater treatment unit tariff price is conducted every three years. Non-routine review of wastewater treatment unit tariff price is conducted upon change in production costs or additional capital expenditure incurred due to compliance with new environmental requirements.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin.	Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement.
Minimum wastewater treatment volume guaranteed	60%, 70% and 75% (80% for Naxi District) of designed production capacity for the first, the second and the third year of operation, respectively, and 80% (100% for Naxi District) of designed production capacity for the fourth year and thereafter.	70%, 80% and 90% of designed production capacity for the first, the second and the third year of operation, respectively, and 100% of designed production capacity for the fourth year and thereafter.	60% and 80% of designed production capacity for the first and the second year of operation, respectively, and 90% of designed production capacity for the third year and thereafter.	60%, 70% and 80% of designed production capacity for the first, the second and the third year of operation, respectively, and 100% of designed production capacity for the fourth year and thereafter.	60% and 80% of designed production capacity for the first and the second year of operation, respectively, and 90% of designed production capacity for the third year and thereafter.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
Responsibilities	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period; and • not dispose of assets without permission.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.	During the concession period, the Group shall: • maintain serviceability of the wastewater treatment infrastructure; • maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and • not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
Terms of termination	Upon expiry of the concession period or early termination upon mutual agreement.	Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety.	Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety.	Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety.	Upon expiry of concession period or in the event of the Group's default, including (amongst others): • asset disposal without permission; • material quality or safety accidents; • cessation of wastewater treatment operation service without permission that affect public interest and safety; or • pledge of assets for borrowings used in projects other than wastewater treatment service under the concession agreement or beyond the concession period.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

	Luzhou urban area	Lu County area	Gulin County area	Xuyong County area	Hejiang County area
Rights to receive specified assets at the end of the concession period	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group) at the end of the concession period, if any.	Infrastructure remained (previously invested by the Group before the concession agreement entered into on 28 April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of concession period will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company.
Terms of renewal	Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.	Priority to extend the concession right upon expiration under the same conditions as other bidders.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The Group's intangible assets representing operating concession in respect of tap water supply and wastewater treatment service are as follows:

	RMB'000
Cost	
At 1 January 2017	1,151,207
Additions	482,177
At 31 December 2017	1,633,384
Acquisition of a subsidiary *(Note 37)*	182,788
Contribution by non-controlling equity owners of a subsidiary *(Note 44)*	3,962
Additions	373,803
At 31 December 2018	**2,193,937**
Accumulated amortisation	
At 1 January 2017	(129,063)
Amortisation for the year	(43,081)
At 31 December 2017	(172,144)
Amortisation for the year	(74,590)
At 31 December 2018	**(246,734)**
Carrying amounts	
At 31 December 2018	**1,947,203**
At 31 December 2017	1,461,240

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The intangible assets of the Group are amortised over the remaining tenure of the relevant service concession arrangements upon commencement of the operation of the concession arrangements.

As at 31 December 2018, intangible assets recognised under service concession arrangements of RMB578 million (2017: RMB323 million) have yet to be in operation and have been allocated to individual CGUs in tap water supply and wastewater treatment segments. The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amount of each of these CGUs as at 31 October 2018 (except for the Weiyuan Qingxi Water, which is identified as a CGU, as at 31 December 2018) based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates ranging from 10.9% to 14.1% (2017: 12.3% to 16.5%). No growth in cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of the Group's water supply plants and wastewater treatment plants at the current tariff; CGUs' past performance and the management's expectation for the forecast growth in usage of tap water from the increase in Luzhou's urban area and population based on the Thirteenth Five-year Plan of Luzhou and existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable. Based on the above value in use calculations and considering that the assumptions used in the calculation are still applicable as at 31 December 2018, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets as at 31 December 2017 and 2018. The Directors also believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of any of its CGU to exceed its recoverable amount.

18. SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

The Group's receivables under service concession arrangements arise from the minimum wastewater treatment volume guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements and are as follows:

	2018	2017
	RMB'000	*RMB'000*
Non-current portion	**833,537**	736,408
Current portion	**17,454**	14,493
	850,991	750,901

Expected collection schedule is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Within one year	**17,454**	14,493
More than one year, but not exceeding two years	**19,840**	16,590
More than two years, but not exceeding three years	**21,360**	18,079
More than three years, but not exceeding four years	**22,379**	18,904
More than four years, but not exceeding five years	**23,449**	19,770
Over five years	**746,509**	663,065
	850,991	750,901

The effective interest rates for the above financial assets fall within the range from 3.51% to 6.22% (2017: 3.51% to 6.00%) per annum.

Details of the impairment assessment are set out in Note 40(b).

19. GOODWILL

	RMB'000
COST	
At 1 January 2017 and 31 December 2017	–
Arising on acquisition of subsidiaries *(note 37)*	25,278
At 31 December 2018	**25,278**

For the purposes of impairment testing, goodwill with indefinite useful life has been allocated to 2 individual CGUs, comprising two subsidiaries which are mainly engaged in provision of tap water supply and installation services. The carrying amount of goodwill allocated to these units is as follows:

	2018 *RMB'000*
Weiyuan Qingxi Water	**15,672**
Weiyuan Installation Company	**9,606**
	25,278

The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the Weiyuan Qingxi Water CGU and Weiyuan Installation Company CGU as at 31 December 2018 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates of 13.7% for Weiyuan Qingxi Water CGU and 14.1% for Weiyuan Installation Company CGU. No growth in cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of water supply plants of Weiyuan Qingxi Water at the current tariff and prospects of Weiyuan Installation Company; CGUs' past performance and the management's expectation for the forecast growth in usage of tap water from the increase in Weiyuan county area and population based on the future plan of Weiyuan and existing government policies applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable. Based on the above value in use calculations, the Directors determine that there is no impairment of any of its CGUs containing the Group's goodwill as at 31 December 2018. The Directors also believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of any of its CGU to exceed its recoverable amount.

20. PREPAID LEASE PAYMENTS

	2018	2017
	RMB'000	*RMB'000*
Non-current portion	**76,745**	77,778
Current portion	**1,857**	1,764
	78,602	79,542

The prepaid lease payments of the Group are held under medium-term leases in the PRC.

21. AVAILABLE-FOR-SALE INVESTMENTS

The Group's available-for-sale investments represent the following equity investments in private entities established in the PRC that the Group is not able to exercise control, joint control nor significant influence according to their articles and memorandum. These investments are not held for trading, instead, they are held for long-term strategic purposes for realising their performance potential in long run. These unlisted companies in the PRC do not have quoted market prices in an active market and their fair values cannot be reliably measured as at 31 December 2017.

	Ownership interest	2017
		RMB'000
At cost		
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.	17.5%	52,530
Others		1,100
		53,630

22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group's equity instruments at FVTOCI represent the following equity investments in private entities established in the PRC that the Group is not able to exercise control, joint control nor significant influence according to their articles and memorandum. These investments are not held for trading, instead, they are held for long-term strategic purposes for realising their performance potential in long run. Accordingly, the Group irrevocably elects to present subsequent changes in fair value of these equity investments in OCI.

	Ownership interest	2018 RMB'000
At fair value		
Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.	17.5%	**53,310**
Others		**3,963**
		57,273

23. DEFERRED TAX ASSETS AND LIABILITIES

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**21,568**	9,007
Deferred tax liabilities	**(16,766)**	(12,615)
	4,802	(3,608)

23. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

The movements in deferred tax assets (liabilities) for the years ended 31 December 2018 and 2017, without taking into account the offsetting of balances within the same tax jurisdiction, are as follows:

	Provision of trade, other receivables and contract assets	Provisions	Intangible assets and receivables under service concession arrangements	Revaluation surplus of investment properties	FVTOCI reserve	Installation revenue	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note (a))			*(Note (b))*		
At 1 January 2017	459	27,309	(25,046)	(2,733)	–	(7,248)	741	(6,518)
Credit (charge) to profit or loss	31	12,174	(7,328)	69	–	(2,258)	222	2,910
At 31 December 2017	490	39,483	(32,374)	(2,664)	–	(9,506)	963	(3,608)
Adjustments *(note 3)*	–	–	–	–	(1,115)	–	–	(1,115)
At 1 January 2018 *(restated)*	490	39,483	(32,374)	(2,664)	(1,115)	(9,506)	963	(4,723)
Arising from acquisition of subsidiaries *(Note 37)*	608	4,047	(15,733)	–	–	–	–	(11,078)
Credit (charge) to profit or loss	148	13,563	(3,430)	69	–	9,506	543	20,399
Credit to other comprehensive income	–	–	–	–	204	–	–	204
At 31 December 2018	1,246	57,093	(51,537)	(2,595)	(911)	–	1,506	4,802

Notes:

(a) The Group's intangible assets and receivables under service concession arrangements are recognised upon the Group paying a specific amount for purchasing the relevant infrastructure or derecognition of its existing property, plant and equipment and prepaid lease payments as infrastructure for providing tap water supply and wastewater treatment service under service concession arrangements.

There are temporary differences between the carrying amounts of the intangible assets and receivables under service concession arrangements and the corresponding tax bases (being the net book value of the infrastructure after deducting the accumulated depreciation) used in the computation of taxable profit.

(b) In prior years, certain installation revenue of Jiangnan Water and Naxi Water were amortised as taxable income over 10 years after such revenue was recognised and it gave rise to deferred tax liability. Installation revenue of these two companies not yet subject to EIT in prior years have been considered as taxable income for the year ended 31 December 2018 and accordingly, the deferred tax liability thereon is fully reversed in the current year.

24. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**31,718**	27,128
Consumables	**1,284**	888
	33,002	28,016

25. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

The Group's contract work in respect of tap water supply installation service was analysed as follows:

	2017 RMB'000
Costs incurred to-date plus recognised profits less recognised losses	10,464
Analysed for reporting purposes as:	
Amounts due from customers for contract work	10,464

26. CONTRACT ASSETS

The contract assets of the Group as at 1 January 2018 and 31 December 2018 were RMB10,464,000 and RMB18,606,000, respectively, that relate to the Group's right to consideration for provision of installation services completed but not yet invoiced by the Group because the Group's right to payments are still not yet unconditional according to the relevant construction contracts at the end of reporting period. The contract assets are transferred to trade receivables once certain specified milestones in the relevant contracts are reached when such right become unconditional.

The increase in the contract assets of the Group was mainly due to the Group's expansion of installation services.

Details of the impairment assessment are set out in Note 40(b).

27. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**131,889**	102,033
Less: Allowance for credit losses	**(2,661)**	(1,604)
	129,228	100,429

Users of tap water supply are required to settle their water fees within one month upon consumption of water. The Group generally grants credit period of 3 months to its wastewater treatment customers.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB131,889,000 and RMB102,033,000 respectively.

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for credit losses:

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**77,388**	78,613
Between 4 months and 6 months	**20,742**	17,300
Between 7 months and 12 months	**20,201**	1,042
Over 1 year	**10,897**	3,474
	129,228	100,429

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate gross amount of RMB52,371,000 which are past due as at the reporting date. Out of the past due balances, RMB30,537,000 has been past due 90 days or more. Except for gross amounts aggregating to RMB3,278,000 which is considered as in default, the remaining past due balance of RMB27,259,000 is due from local government bureau and is not considered as default mainly because such amount mainly arose from the increase in volume of wastewater treated for the year ended 31 December 2018 that increased the governmental procedures and time for settlement by the related government bureau that is similar with previous years. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in note 40(b).

27. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2017, trade receivables disclosed below were past due for which the Group has not recognised an allowance for credit losses because, based on past experience, the Directors were of the opinion that there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Aging of trade receivables which were past due but not impaired:

	2017 *RMB'000*
Overdue by:	
Within 3 months	19,656
Between 4 months and 6 months	1,042
Over 1 year	3,474
	24,172

Movement of the Group's provision for impairment of trade receivables is as follows:

	RMB'000
At 1 January 2017	1,418
Impairment losses recognised on trade receivables	186
At 31 December 2017	1,604

As at 31 December 2017, the maximum exposure to credit risk at the reporting date was the carrying value of each class of trade receivables mentioned above. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable from the date of credit initially granted up to the end of the reporting period. Impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected recoverable proceeds. The Group did not hold any collateral over these balances.

28. PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Prepayments for inventories	**5,391**	4,827
Prepayment for prepaid lease payments	**4,000**	4,000
Other receivables	**41,416**	13,886
Less: Allowance for credit losses	**(943)**	(1,592)
	49,864	21,121
Less: Amount classified as non-current assets	**(4,000)**	(4,000)
Current assets	**45,864**	17,121

Except for a tender deposit of RMB20,000,000 for a wastewater treatment facility and pipeline network construction project in Leshan City Shizhong District included in other receivables as at 31 December 2018 and subsequently refunded in January 2019, the remaining other receivables mainly include various receivables from governmental bureau for certain construction projects incurred on their behalf and various deposits paid.

Movement of the Group's provisions for impairment losses of other receivables is as follows:

	RMB'000
At 1 January 2017	1,451
Impairment losses recognised on receivables	141
At 31 December 2017	1,592

Details of impairment assessment of other receivables for the year ended 31 December 2018 are set out in note 40(b).

29. BANK BALANCES AND CASH

As at 31 December 2018, the bank balances carry interest at prevailing market interest rates ranging from 0.01 % to 1.265% (2017: from 0.01% to 1.265%) per annum.

30. BORROWINGS

	2018 *RMB'000*	2017 *RMB'000*
Unsecured bank borrowings without corporate guarantee *(Note (a))*	**260,000**	215,000
Unsecured bank borrowings with corporate guarantee *(Note (b))*	**213,709**	187,500
Secured bank borrowings *(Note (c))*	**246,700**	130,500
Unsecured other borrowings *(Note (d))*	**58,025**	3,759
Unsecured other borrowing with corporate guarantee *(Note (e))*	**66,000**	66,000
	844,434	602,759
The carrying amounts repayable:		
Within one year or on demand	**392,256**	289,574
Within a period of more than one year but not exceeding two years	**97,849**	80,574
Within a period of more than two years but not more than five years	**223,706**	130,611
Within a period of more than five years	**130,623**	102,000
	844,434	602,759
Less: Amounts due within one year shown under current liabilities	**(392,256)**	(289,574)
Amounts shown under non-current liabilities	**452,178**	313,185
The Group's borrowings are analysed as:		
– At fixed rates	**223,948**	136,000
– At floating rates	**620,486**	466,759
	844,434	602,759

30. BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2017, included in the unsecured bank borrowings are bank borrowings of RMB70,000,000 bearing interest at a fixed rate of 4.35% per annum, the remaining unsecured bank borrowings bear interest at a floating rate of 4.35% per annum. These bank borrowings are repayable from March 2018 to November 2018.

As at 31 December 2018, included in the unsecured bank borrowings are bank borrowings of RMB80,000,000 bearing interest at fixed rates ranging from 3.99% to 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rates of 4.79% per annum. These bank borrowings are repayable from January 2019 to December 2019.

(b) As at 31 December 2017, the unsecured bank borrowings bear interest at floating rates of 4.79% to 5.64% per annum and are repayable by instalments from January 2018 till December 2024. Their repayments are guaranteed by the group companies.

As at 31 December 2018, the unsecured bank borrowings bear interest at floating rates of 4.79% to 5.78% per annum and are repayable by instalments from March 2019 to November 2033. Their repayments are guaranteed by the group companies.

(c) (i) As at 31 December 2017, the bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and certain land, bear interest at a floating rate of 4.90% per annum and are repayable by instalments from May 2018 to December 2030. The repayment of the bank borrowings are guaranteed by the group companies.

(ii) As at 31 December 2018, the bank borrowings are comprised of the following:

- Bank borrowings of RMB126,000,000 with details of terms set out in Note 30(c)(i) above. The repayment of the bank borrowings are guaranteed by the group companies.

- A bank borrowing of RMB98,700,000 is secured by the Group's charging right for certain tap water supply fees, bears interest at a floating rate of 4.90% per annum and is repayable by instalments from June 2019 to April 2027.

- Bank borrowings of RMB6,000,000 are secured by certain of the Group's buildings and tap water supply plants, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments before January 2020.

- Bank borrowings of RMB16,000,000 are secured by the Group's charging right for certain tap water supply fees, bear interest at a fixed rate of 6.41% per annum and are repayable by instalments from December 2019 to December 2020.

30. BORROWINGS (CONTINUED)

Notes: (Continued)

(d) (i) As at 31 December 2017, the other borrowing represents a loan from The World Bank for financing the Group's construction of tap water supply infrastructure, bears interest at floating rates ranging from 1.11% to 2.02% per annum and is repayable by instalments till May 2021.

(ii) As at 31 December 2018, the other borrowings are comprised of the following:

- A loan of RMB2,077,000 from The World Bank with details of terms set out in Note 30(d)(i) above.
- A loan of RMB2,250,000 is from a non-controlling equity owner of a subsidiary, non-interest bearing and repayable on demand.
- Other loans of RMB53,698,000 from independent third parties bear interest at fixed rates ranging from Nil to 8.02% per annum and are repayable on demand.

(e) The other borrowing represents a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., bears interest at a fixed rate of 1.20% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.

31. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**33,344**	18,694
Between 7 months and 12 months	**2,426**	811
Over 1 year	**7,645**	2,247
	43,415	21,752

The credit period on purchases are generally within 6 months.

32. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Advances from customers *(Note 3)*	**–**	120,517
Wages and welfare payable	**35,020**	15,797
Other taxes payable	**14,363**	6,803
Construction payables	**226,510**	228,519
Payables for purchases of wastewater treatment plants	**9,386**	9,386
Payables to governmental bureau	**50,415**	41,796
Other payables	**20,710**	8,632
	356,404	431,450

33. CONTRACT LIABILITIES

The contract liabilities represents the Group's obligation to transfer goods or services to customers for which the Group has received consideration from customers in advance.

	At 31 December 2018	At 1 January 2018 *(note)*
	RMB'000	*RMB'000*
Provision of tap water supply – current	**24,644**	11,841
Provision of installation services – current	**147,695**	108,676
Sales of secondary-water supply equipment – current	**4,011**	–
	176,350	120,517

Note: The amounts in this column are after the adjustments from the application of IFRS 15.

The contract liabilities as at 1 January 2018 were recognised as revenue for the year ended 31 December 2018, and those as at 31 December 2018 will be recognised as revenue for the year ending 31 December 2019.

34. DEFERRED INCOME – GOVERNMENT GRANTS

The deferred income represents government subsidies granted to the Group for subsidising its construction projects, amongst others, including wastewater treatment plants, tap water supply network, etc.

35. PROVISIONS

	2018 *RMB'000*	2017 *RMB'000*
At 1 January	**160,565**	110,758
Provisions from acquisition of subsidiaries *(Note 37)*	**16,187**	–
Provisions recognised	**51,149**	58,594
Unwinding of the discount	**7,291**	5,427
Payments	**(4,259)**	(14,214)
At 31 December	**230,933**	160,565
Less: Amount classified as current liabilities	**(1,769)**	(4,902)
Non-current portion	**229,164**	155,663

Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities to specified level of serviceability and/or to restore the plants to a specified condition during the service concession periods. These contractual obligations to maintain or restore the facilities, except for any upgrade elements, are recognised and measured in accordance with IAS 37 at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The applicable discount rate as at 31 December 2018 is 4.90% (2017: 4.90%) per annum.

36. SHARE CAPITAL

	2018 *RMB'000*	2017 *RMB'000*
At beginning of the year	**859,710**	664,310
Issue of new ordinary shares *(Note (a))*	**–**	195,400
At end of the year	**859,710**	859,710

	'000	*'000*
Shares of RMB1 each		
– Domestic shares *(Note (b))*	644,770	644,770
– H shares	214,940	214,940
	859,710	859,710

36. SHARE CAPITAL (CONTINUED)

Notes:

(a) On 31 March 2017, 195,400,000 of new ordinary H shares of RMB1 each of the Company were issued at a price of HK$2.30 (equivalent to RMB2.04) each by way of global offering (the "Global Offering") and 19,540,000 domestic shares were converted into H shares. The proceeds of HK$220,095,000 (equivalent to RMB195,400,000) representing the nominal value of the new ordinary shares of the Company, were credited to the Company's share capital. The remaining proceeds of HK$229,325,000 (equivalent to RMB203,595,000), before issuing expenses of RMB33,837,000, were credited to the Company's capital reserves.

(b) Domestic shares and H shares rank pari passu in all respects with each other. Domestic shares are not eligible for trading on the Main Board of The Stock Exchange of Hong Kong Limited.

37. ACQUISITIONS OF SUBSIDIARIES

Acquisition of Weiyuan Qingxi Water

In September 2018, the Company entered into an equity transfer agreement with independent third parties dated 21 September 2018, pursuant to which, the Company acquired 60% equity interest in Weiyuan Qingxi Water for a cash consideration of RMB37,570,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB15,672,000. Weiyuan Qingxi Water is engaged in provision of water supply service and has obtained an exclusive concession right of the production and sale of tap water in Weiyuan County. Weiyuan Qingxi Water was acquired so as to continue the expansion of the Group's water supply operations.

37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisition of Weiyuan Qingxi Water (Continued)

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
The provisional fair values of identifiable assets and liabilities of Weiyuan Qingxi Water acquired at the date of obtaining control, subject to further adjustments, if any, are as follows:	
Property, plant and equipment	3,860
Prepaid lease payments	791
Intangible assets	182,788
Inventories	2,386
Trade receivables	10,502
Prepayments and other receivables	11,407
Bank balances and cash	7,346
Trade and other payables	(5,398)
Other payables	(68,366)
Contract liabilities	(4,637)
Borrowings	(76,698)
Provisions	(16,175)
Deferred tax liabilities	(11,310)
	36,496

37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisition of Weiyuan Qingxi Water (Continued)

In the opinion of the Directors, the fair values of trade and other receivables at the date of acquisition amounted RMB21,759,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB24,288,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows are expected to be collected amounted to RMB21,759,000.

Goodwill arising on acquisition

	RMB'000
Consideration transferred, satisfied by cash	37,570
Plus: Non-controlling interests	14,598
Less: Net assets acquired	(36,496)
Goodwill arising on acquisition	15,672

The non-controlling interests recognised at the date of acquisition was measured by reference to the proportionate share (40%) of the fair value of the net identifiable assets of Weiyuan Qingxi Water at the date of acquisition and amounted to RMB14,598,000.

Goodwill arose in the acquisition of Weiyuan Qingxi Water because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Weiyuan Qingxi Water. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition

	RMB'000
Analysis of outflow of cash and cash equivalents in respect of acquisition of Weiyuan Qingxi Water:	
Cash paid	(37,570)
Bank balances and cash acquired	7,346
Net cash outflow arising on acquisition	(30,224)

37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisition of Weiyuan Qingxi Water (Continued)

Acquisition-related costs amounting to RMB510,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses, in the consolidated statement of profit or loss and other comprehensive income.

Included in the net profit and revenue for the year ended 31 December 2018 are RMB3,345,000 and RMB10,575,000, respectively, attributable to the additional business generated by Weiyuan Qingxi Water.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been RMB1,249,616,000 and profit for the year would have been RMB171,533,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

Acquisition of Weiyuan Installation Company

In September 2018, the Group entered into an equity transfer agreement with independent third parties dated 21 September 2018, pursuant to which, the Company agreed to acquire 60% equity interest in Weiyuan Installation Company for a cash consideration of RMB17,590,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB9,606,000. Weiyuan Installation Company is engaged in the maintenance of water supply network and the water meter installation construction in Weiyuan County. Weiyuan Installation Company was acquired so as to continue the expansion of the Group's water supply operations.

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
The provisional fair values of identifiable assets and liabilities of Weiyuan Installation Company acquired at the date of obtaining control, subject to further adjustment, if any, are as follows:	
Property, plant and equipment	110
Deferred tax assets	232
Inventories	287
Trade receivables	7,807
Other receivables	10,290
Bank balances and cash	1,790
Trade and other payables	(4,536)
Other payables	(1,450)
Contract liabilities	(365)
Tax liabilities	(846)
Provisions	(12)
	13,307

37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisition of Weiyuan Installation Company (Continued)

In the opinion of the Directors, the fair values of trade and other receivables at the date of acquisition amounted RMB18,097,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB19,558,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows are expected to be collected amounted to RMB18,097,000.

Goodwill arising on acquisition

	RMB'000
Consideration transferred, satisfied by cash	17,590
Plus: Non-controlling interests	5,323
Less: Net assets acquired	(13,307)
Goodwill arising on acquisition	9,606

The non-controlling interests recognised at the date of acquisition was measured by reference to the proportionate share (40%) of the fair value of the net identifiable assets of Weiyuan Installation Company at the date of acquisition and amounted to RMB5,323,000.

Goodwill arose in the acquisition of Weiyuan Installation Company because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Weiyuan Installation Company. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow on acquisition

	RMB'000
Analysis of outflow of cash and cash equivalents in respect of acquisition of Weiyuan Installation Company:	
Cash paid	(17,590)
Bank balances and cash acquired	1,790
Net cash outflow arising on acquisition	(15,800)

37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

Acquisition of Weiyuan Installation Company (Continued)

Acquisition-related costs amounting to RMB510,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses, in the consolidated statement of profit or loss and other comprehensive income.

Included in the net profit and revenue for the year ended 31 December 2018 are RMB569,000 and RMB1,641,000, respectively, attributable to the additional business generated by Weiyuan Installation Company.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been RMB1,227,752,000 and profit for the year would have been RMB170,508,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Name of company	Date of establishment	Equity interest attributable to the Group as at 31 December 2018	2017	Paid-up registered capital	Principal activities
Beijiao Water	25 March 2004	98.42%	86.78%	RMB43,909,360	Provision of water supply service
Hejiang Water	26 April 1999	85.93%	85.93%	RMB8,639,500	Provision of water supply service
Jiangnan Water	7 March 2003	100.00%	49.96%	RMB6,520,000	Provision of water supply service
Naxi Water	17 March 2003	100.00%	76.64%	RMB4,380,000	Provision of water supply service
Nanjiao Water	18 September 2002	99.53%	45.79%	RMB9,766,000	Provision of water supply service
Sitong Engineering	2 September 2002	100.00%	79.38%	RMB5,010,000	Provision of engineering construction service
Sitong Design	6 September 2002	99.82%	67.38%	RMB500,000	Provision of water supply and drainage design service
Xinglu Wastewater Treatment	11 December 2000	98.00%	98.00%	RMB268,408,200	Provision of wastewater treatment service
Luzhou Water Crystal Mall	23 February 1996	100.00%	100.00%	RMB520,000	Sale of materials
Xinghe Water **	29 August 2018	51.00%	N/A	RMB55,102,000	Provision of wastewater treatment service
Weiyuan Qingxi Water	30 December 2004	60.00%	N/A	RMB17,600,000	Provision of water supply service
Weiyuan Installation Company	5 November 2007	60.00%	N/A	RMB5,000,000	Provision of engineering construction service
Xingxu Water	9 October 2018	60.00%	N/A	RMB10,000,000	Provision of water supply service
Leshan Company	28 December 2018	95.00%	N/A	Nil*	Provision of wastewater treatment service

* In January 2019, the registered capital of RMB36,484,000 and RMB1,920,000 from the Company and the non-controlling shareholder, respectively have been fully received.

** Except for Xinghe Water, all the above subsidiaries are directly held by the Company.

The above companies are limited liability companies established in the PRC and are operating in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Proportion ownership interest held by non-controlling interests At 31 December		Profit (loss) allocated to non-controlling interests Year ended 31 December		Accumulated non-controlling interests At 31 December	
	2018	2017	**2018**	2017	**2018**	2017
	%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Beijiao Water	**1.58**	13.22	**281**	277	**1,824**	15,330
Hejiang Water	**14.07**	14.07	**1,539**	1,415	**8,244**	6,802
Jiangnan Water	**–**	50.04	**6,342**	9,119	**–**	43,237
Naxi Water	**–**	23.36	**(134)**	111	**–**	5,499
Nanjiao Water	**0.47**	54.21	**951**	(1,348)	**52**	5,267
Xinglu Wastewater Treatment	**2.00**	2.00	**1,429**	1,548	**13,339**	12,910
Xinghe Water	**49.00**	N/A	**946**	N/A	**27,946**	N/A
Weiyuan Qingxi Water	**40.00**	N/A	**1,338**	N/A	**15,936**	N/A
Weiyuan Installation Company	**40.00**	N/A	**228**	N/A	**5,550**	N/A
Individually immaterial subsidiaries with non-controlling interests			**257**	269	**3,985**	2,631
			13,177	11,391	**76,876**	91,676

Changes in ownership interest in subsidiaries

There was no change in the Company's ownership interest in its subsidiaries in 2017.

In 2018, the Company acquired additional 11.64% equity interest in Beijiao Water, 50.04% equity interest in Jiangnan Water, 23.36% equity interest in Naxi Water, 53.74% equity interest in Nanjiao Water, 20.62% equity interest in Sitong Engineering and 32.44% equity interest in Sitong Design from their non-controlling interests for cash consideration of RMB16,050,000, RMB29,528,000, RMB7,049,000, RMB15,482,000, RMB2,417,000 and RMB607,000, respectively.

Summarised financial information (prepared in accordance with IFRSs) in respect of each of the Group's subsidiaries that have material non-controlling interests as at 31 December 2018 is set out below. The summarised financial information below represents amounts before intra-group eliminations.

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

Hejiang Water

	2018	2017
	RMB'000	*RMB'000*
Current assets	**54,445**	28,491
Non-current assets	**160,210**	92,433
Current liabilities	**48,136**	58,241
Non-current liabilities	**22,000**	14,336
Equity attributable to owners of the Company	**136,275**	41,545
Non-controlling interests	**8,244**	6,802

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

Hejiang Water (Continued)

	2018 RMB'000	2017 RMB'000
Revenue	**109,506**	83,346
Expenses	**(98,571)**	(73,289)
Profit for the year	**10,935**	10,057
Profit and total comprehensive income attributable to owners of the Company	**9,396**	8,642
Profit and total comprehensive income attributable to non-controlling interests	**1,539**	1,415
Capital Contribution by the Company *(Note)*	**85,928**	–
Dividends paid to owners of the Company	**594**	742
Dividends paid to non-controlling interests	**97**	122
Net cash inflow from operating activities	**9,296**	36,865
Net cash outflow from investing activities	**(70,745)**	(47,311)
Net cash inflow (outflow) from financing activities	**90,251**	(847)
Net cash inflow (outflow)	**28,802**	(11,293)

Note: The corresponding capital contributions from non-controlling shareholders have not yet been made as at 31 December 2018.

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

Xinglu Wastewater Treatment and its subsidiary (Xinghe Water)

	2018 *RMB'000*	2017 *RMB'000*
Consolidated:		
Current assets	**219,918**	216,092
Non-current assets	**1,047,949**	934,369
Current liabilities	**143,336**	134,123
Non-current liabilities	**429,644**	370,859
Equity attributable to owners of the Company	**653,602**	632,569
Non-controlling interests of Xinglu Wastewater Treatment	**13,339**	12,910
Non-controlling interests of Xinghe Water	**27,946**	N/A

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

Xinglu Wastewater Treatment and its subsidiary (Xinghe Water) (Continued)

	2018 RMB'000	2017 RMB'000
Consolidated:		
Revenue	**342,526**	206,429
Expenses	**(270,118)**	(129,076)
Profit for the year	**72,408**	77,353
Profit and total comprehensive income attributable to owners of the Company	**70,033**	75,805
Profit and total comprehensive income attributable to non-controlling interests of Xinglu Wastewater Treatment	**1,429**	1,548
Profit and total comprehensive income attributable to non-controlling interests of Xinghe Water	**946**	N/A
Capital contribution by the Company	**–**	20,000
Capital contribution by a non-controlling shareholder	**27,000**	408
Dividends paid to owners of the Company	**49,000**	–
Dividends paid to non-controlling interests of Xinglu Wastewater Treatment	**1,000**	–

	2018 RMB'000	2017 RMB'000
Consolidated:		
Net cash inflow from operating activities	**168,215**	21,552
Net cash outflow from investing activities	**(56,412)**	(7,223)
Net cash outflow from financing activities	**(120,189)**	(7,702)
Net cash (outflow) inflow	**(8,386)**	6,627

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

Weiyuan Qingxi Water

	2018 *RMB'000*
Current assets	**21,613**
Non-current assets	**187,296**
Current liabilities	**117,538**
Non-current liabilities	**51,530**
Equity attributable to owners of the Company	**23,905**
Non-controlling interests	**15,936**

38. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (CONTINUED)

Weiyuan Qingxi Water (Continued)

	For the period from 21 September 2018 (date of acquisition) to 31 December 2018 *RMB'000*
Revenue	**10,575**
Expenses	**(7,230)**
Profit for the period	**3,345**
Profit and total comprehensive income attributable to owners of the Company	**2,007**
Profit and total comprehensive income attributable to non-controlling interests	**1,338**
Net cash inflow from operating activities	**18,257**
Net cash outflow from investing activities	**(7,827)**
Net cash outflow from financing activities	**(10,164)**
Net cash inflow	**266**

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes borrowings disclosed in note 30, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, FVTOCI reserve, capital reserve, statutory surplus reserves, retained profits and non-controlling interests.

The Group is not subject to any externally imposed capital requirements.

Net debts to equity ratio

The Group's management reviews the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with the capital.

The net debts to equity ratio of the Group at the end of the reporting period was as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Debts *(note 1)*	**844,434**	602,759
Less: Bank balances and cash	**(547,681)**	(700,075)
Net debts	**296,753**	(97,316)
Total equity *(note 2)*	**1,956,911**	1,877,916
Net debts to equity ratio	**15.2%**	(5.2%)

Notes:

1. Debts comprise long-term and short-term borrowings as detailed in note 30.

2. Total equity includes all capital and reserves attributable to the owners of the Company and non-controlling interests.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018	2017
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables	**N/A**	1,563,699
Financial assets at amortised cost	**1,568,373**	N/A
Available-for-sale investments	**N/A**	53,630
Equity instruments at FVTOCI	**57,273**	N/A
Financial liabilities		
Amortised cost	**1,229,890**	928,641

(b) Financial risk management objectives and policies

The Group's major financial instruments include receivables under service concession arrangements, equity instruments at FVTOCI, available-for-sale investments, trade and other receivables, bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's operations expose it to a number of financial risks; principally interest rate risk, foreign currency risk, the credit risk and the liquidity risk. Continuous monitoring of these risks ensures that the Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk in relation to borrowings bearing at floating rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing borrowings at the end of the reporting period and assumed that these amounts outstanding at the end of the reporting period was outstanding for the whole relevant year.

If interest rates on borrowings had been 10 basis points higher, and all other variables were held constant, the potential effect on post-tax results is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Decrease in post-tax profit	**444**	397

There would be an equal and opposite impact on the above post-tax results, should interest rates on borrowings had been 10 basis points lower in the above sensitivity analysis.

The cash flow interest risk on bank balances is considered insignificant.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

(ii) Foreign currency risk

While the Group carries out its business in the PRC and receives revenue and pays its costs/expenses in RMB, the Group had a borrowing from The World Bank that is US$ denominated and raised funds in Hong Kong Dollars in the Global Offering. The Group does not currently hedge its exposure to foreign currencies and recognises the profits and losses resulting from currency fluctuations as and when they arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (liabilities) at the end of the reporting period are as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Borrowings – US$	**(2,077)**	(3,759)
Bank balances – HK$	**3,178**	212,218

The following shows the Group's sensitivity to five percent appreciation of US$ and HK$ against RMB which represents the management's assessment of the reasonable possible change in US$-RMB and HK$-RMB exchange rate. The sensitivity analysis of the Group includes the outstanding US$ and HK$ denominated borrowing and bank balances as adjusted for five percent appreciation of US$ and HK$ at the end of the reporting period.

	2018 ***RMB'000***	2017 *RMB'000*
Increase in post-tax profit	**47**	8,860

There would be an equal and opposite impact on the above post-tax results, should the US$ and HK$ be weakened against RMB in the above sensitivity analysis.

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. The Group generally grants credit period of 1 month to its tap water supply customers upon consumption of water, 3 months to its installation customers and 3 months to its wastewater treatment customers, respectively. Besides, the credit period and recoverability of the existing customers are reviewed by the management of the Group regularly. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

For the year ended 31 December 2017, the Group performed impairment assessment using incurred loss model. Upon adoption of IFRS 9, the Directors assessed the impairment of trade receivables and contract assets arising from contracts with customers as follows:

The Group applies a provision matrix based on customers' ageing and historical observed default rates over the expected life of trade receivables of the customers (mainly residents, corporations and local governmental bureau) and adjusted for forward-looking information that is available without undue cost or effort to assess the impairment for its trade receivables in relation to its tap water supply operation of gross amount of RMB45,343,000 at 31 December 2018, because such trade receivables are characterised as a large number of customers with insignificant amounts and similar credit risk; and no lifetime ECL was made for trade receivables as at 1 January 2018 and 31 December 2018 in relation to the Group's trap water supply operation.

The Group applies a provision matrix based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables of the customers (local governmental bureau) and adjusted for forward-looking information that is available without undue cost or effort to assess the impairment for its trade receivables in relation to its wastewater treatment operation of gross amount of RMB70,098,000 at 31 December 2018, because such financial assets are characterised as some local governmental bureau with similar credit risk; and no lifetime ECL of was made for trade receivables as at 1 January 2018 and 31 December 2018 in relation to its wastewater treatment operation.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables and contract assets arising from contracts with customers (Continued)

The Group applies a provision matrix based on internal credit rating, customers' ageing and historical observed default rates over the expected life of trade receivables and contract assets of the customers (mainly residents, corporations and local governmental bureau) and adjusted for forward-looking information that is available without undue cost or effort to assess the impairment for its trade receivables of gross amount of RMB16,448,000 and contract assets of gross amount of RMB19,668,000 at 31 December 2018 in relation to its installation services operation because such financial assets are characterised as a number of customers with similar credit risk; and lifetime ECL of RMB1,604,000 and Nil were made for trade receivables and contract assets, respectively, as at 1 January 2018 and RMB2,661,000 and RMB1,062,000 were made for trade receivables and contract assets, respectively, as at 31 December 2018 in relation to the Group's installation services operation.

Receivables under service concession arrangements

Given (i) the counterparties in the Group's receivables under service concession arrangements are the local governmental bureau in which the default risk is generally perceived to be low; (ii) there was no default in payments in the past; and (iii) the strict enforcement of a sound credit policy by the Group, the Directors consider that there was no objective evidence of impairment and no impairment in the Group's receivables under service concession arrangements during the year ended 31 December 2017.

Upon adoption of IFRS 9, the Group has assessed impairment for its receivables under service concession arrangements as at 1 January 2018 and 31 December 2018 for each Grantor and ECL is estimated based on internal credit rating, their ageing, historical observed default rates over the expected life of receivables under service concession arrangements of the Grantors and adjusted for forward-looking information that is available without undue cost or effort. In the opinion of the Directors there has been no significant increase in credit risk in the Group's receivables under service concession arrangements of gross amount of RMB850,991,000 at 31 December 2018, since their initial recognition and the 12m ECL on the Group's receivables under service concession arrangements as at 1 January 2018 and 31 December 2018 is not material.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Other receivables

Upon adoption of IFRS 9, the Group assesses the impairment for its other receivables of gross amount of RMB41,416,000 at 31 December 2018 individually based on internal credit rating and ageing of these debtors which, in the opinion of the Directors, have no significant increase in credit risk since initial recognition. 12m ECL of RMB1,592,000 and RMB943,000 were made for other receivables as at 1 January 2018 and 31 December 2018, respectively.

Bank balances

Upon adoption of IFRS 9, the Group assesses that its bank balances are at low credit risk because they are placed with reputable banks with good internal credit rating and/or external credit rating, if available, and no recognition of 12m ECL as at 1 January 2018 and 31 December 2018 is considered necessary.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

For assessment of the ECL of the Group's financial assets, the Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	**Description**	**Trade receivables/ Contract assets/**	**Other receivables/ Bank balances/ Receivables under service concession arrangements**
Level 1	The counterparty has great ability of repayment, low risk of default and has no history of impairment loss.	Lifetime ECL-not credit-impaired.	12m ECL
Level 2	The counterparty has good ability of repayment, which may be influenced by macro environment and economic situation.	Lifetime ECL-not credit-impaired	12m ECL
Level 3	The counterparty has enough ability of repayment, but settles after due date infrequently.	Lifetime ECL-not credit-impaired	Lifetime ECL-not credit-impaired
Level 4	The counterparty has rare ability of repayment and there is potential chance of default.	Lifetime ECL-credit-impaired	Lifetime ECL-credit-impaired
Level 5	The counterparty has no ability to repay its debts and the receivable is not expected to be collectable.	Amount is written off	Amount is written off

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's trade receivables, contract assets, receivables under service concession arrangements, other receivables and bank balances, which are subject to ECL assessment:

2018	**Internal credit rating**	**12m or lifetime ECL**	**Gross carrying amount**	
			RMB'000	*RMB'000*
Financial assets at amortised cost				
Trade receivables – tap water supply	level 3	Lifetime ECL Not credit impaired		45,343
Trade receivables – wastewater treatment	level 1	Lifetime ECL Not credit impaired		70,098
Trade receivables – installation	*Note (i)*	Lifetime ECL		
		Not credit impaired	13,170	
		Credit-impaired	3,278	16,448
				131,889
Contract assets	*Note (ii)*	Lifetime ECL Not credit impaired		19,668
Receivables under service concession arrangements	level 1	12m ECL		850,991
Other receivables	*Note (iii)*	12m ECL		41,416
Bank balances	level 1	12m ECL		547,663

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes:

(i) Trade receivables in relation to its installation services operation as at 31 December 2018 are analysed below based on internal credit rating:

Internal credit rating	Average loss rate	Gross carrying amount	ECL
		RMB'000	*RMB'000*
Level 1	0.08%	10,168	8
Level 2	2.00%	2,799	56
Level 3	13.79%	203	28
Level 4	78.37%	3,278	2,569
			2,661

(ii) Contract assets as at 31 December 2018 are analysed below based on internal credit rating:

Internal credit rating	Average loss rate	Gross carrying amount	ECL
		RMB'000	*RMB'000*
Level 1	0.06%	10,171	6
Level 2	2.12%	2,306	49
Level 3	14.00%	7,191	1,007
			1,062

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes: (Continued)

(iii) Other receivables as at 31 December 2018 are analysed below based on internal credit rating:

Internal credit rating	Average loss rate	Gross carrying amount	ECL
		RMB'000	*RMB'000*
Level 1	0.06%	32,277	19
Level 2	2.07%	387	8
Level 3	10.47%	8,752	916
			943

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and contract assets and 12m ECL that has been recognised for other receivables:

	Trade receivables		Contract assets		Other receivables	
	Lifetime ECL (credit-impaired)	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Lifetime ECL (not credit-impaired)	12m ECL	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balances as at 1 January 2018	1,595	9	–	–	1,592	3,196
Credit losses recognised	1,575	83	–	1,062	475	3,195
Credit losses reversed	(601)	–	–	–	(1,124)	(1,725)
Balances as at 31 December 2018	2,569	92	–	1,062	943	4,666

40. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

As disclosed in note 2, the Group had net current liabilities of RMB194,414,000 as at 31 December 2018. In the opinion of the Directors, the financial information has been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account the expected cash flows from operations, undrawn banking facilities amounting to RMB1,061,888,000 available to the Group as at 31 December 2018 and new financing arrangement obtained subsequent to 31 December 2018. In the management of liquidity risk, the Group's management prepares forecast for future cash requirements that takes into account of the operating cash flows, the liquidity risk table below and future capital commitments aiming at keeping the Group's operation with sufficient cash to meet the liabilities due at any time. Based on such forecast, should the Group require additional cash to fund its operation/expansion projects, the Group's management will consider to obtain additional banking borrowings or additional capital. Details of the bank borrowings and capital of the Group during the year have been set out in notes 30 and 36, respectively.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate	Less than 6 months and on demand	6 months to 1 year	1 to 2 years	More than 2 years	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018							
Borrowings							
– Fixed rates	**4.49%**	**108,200**	**32,565**	**22,773**	**74,411**	**237,949**	**223,948**
– Variable rates	**5.03%**	**87,317**	**194,668**	**95,460**	**326,030**	**703,475**	**620,486**
Trade and other payables		**385,456**	**–**	**–**	**–**	**385,456**	**385,456**
		580,973	**227,233**	**118,233**	**400,441**	**1,326,880**	**1,229,890**
At 31 December 2017							
Borrowings							
– Fixed rates	2.82%	41,760	30,692	803	75,216	148,471	136,000
– Variable rates	4.88%	119,198	117,854	90,614	184,113	511,779	466,759
Trade and other payables		325,882	–	–	–	325,882	325,882
		486,840	148,546	91,417	259,329	986,132	928,641

40. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair Value Measurements of Financial Instruments

Some of the financial assets are measured at fair value for financial reporting purposes. This note provides information about how the Group determines the fair values of these financial assets.

In estimating the fair value of a financial asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the Directors semi-annually to explain the cause of fluctuations in the fair value of the assets.

Information about the valuation techniques and inputs used in determining the fair values of various financial assets are disclosed below.

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

	Fair value as at		Fair value	Valuation technique(s)
Financial assets	**31 December 2018**	**1 January 2018**	**hierarchy**	**and key input(s)**
Unquoted equity investments	17.51% of equity investment in Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd – RMB53,310,000;	17.51% of equity investment in Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd – RMB56,149,000;	Level 3	Based on adjusted net assets value of the investment. *(Note 1)*
Unquoted equity investments	0.01% of equity investment in Sichuan Tianhua Inc. – RMB153,000	0.01% of equity investment in Sichuan Tianhua Inc. – RMB100,000	Level 3	Based on adjusted net asset value of the investment. *(Note 1)*
Unquoted equity investments	0.04% of equity investment in Luzhou Communications Investment Group Co., Ltd – RMB3,810,000	0.04% of equity investment in Luzhou Communications Investment Group Co., Ltd – RMB1,842,000	Level 3	Based on price book ratio of comparative companies with key inputs, such as price book ratios of comparative companies, estimated market liquidity, etc. *(Note 2)*

Notes:

1. An increase in the adjusted net asset value of such investment used in isolation would result in an increase in the fair value of the equity investment, and vice versa.

2. An increase in 5% of price book ratio used in isolation would result in an increase of RMB92,000 and RMB190,000 in the fair value of the equity investment as at 1 January 2018 and 31 December 2018, respectively, and vice versa.

40. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair Value Measurements of Financial Instruments (Continued)

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the consolidated financial statements approximate their fair values.

(iii) Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity investments *RMB'000*
At 1 January 2018, upon initial application of IFRS 9	58,091
Net fair value loss recognised in other comprehensive expense	(818)
At 31 December 2018	57,273

Net fair value loss in other comprehensive expense related to equity instruments at FVTOCI held at the end of the current reporting period is reported as change in "FVTOCI reserve".

41. OPERATING LEASES

The Group as lessee

Rental expense borne by the Group was RMB461,000 (2017: RMB459,000) for the year ended 31 December 2018.

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**92**	154
In the second to fifth year, inclusive	**24**	10
	116	164

41. OPERATING LEASES (CONTINUED)

The Group as lessor

Property rental income earned during the year by the Group was RMB1,124,000 (2017: RMB1,323,000) for the year ended 31 December 2018.

All of the Group's investment properties are held for rental purposes. They are expected to generate rental on an ongoing basis.

At the end of reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 ***RMB'000***	2017 *RMB'000*
Within one year	**254**	394
In the second to fifth year, inclusive	**458**	268
More than five years	**19**	–
	731	662

42. CAPITAL COMMITMENTS

	2018 ***RMB'000***	2017 *RMB'000*
Capital expenditure contracted but not provided for:		
construction and upgrading infrastructure	**763,897**	386,772

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	**Dividends**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	602,759	–	602,759
Financing cash flows	130,885	(70,767)	60,118
Dividend declared	–	70,767	70,767
Borrowings of Weiyuan Qingxi Water acquired at the acquisition date *(Note 37)*	76,698	–	76,698
Interest on borrowings recognised	33,634	–	33,634
Foreign exchange translation	458	–	458
At 31 December 2018	**844,434**	**–**	**844,434**
At 1 January 2017	685,283	–	685,283
Financing cash flows	(107,923)	(1,612)	(109,535)
Dividend declared	–	1,612	1,612
Interest on borrowings recognised	25,669	–	25,669
Foreign exchange translation	(270)	–	(270)
At 31 December 2017	602,759	–	602,759

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the Group recorded an addition to intangible assets of RMB3,962,000 and an increase in receivables under service concession arrangements of RMB23,038,000 which arose from contribution of certain wastewater treatment infrastructure of RMB27,000,000 to a subsidiary of the Company by a non-controlling equity owner.

During the year ended 31 December 2017, there was no major non-cash transaction.

45. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

During the year, the Group had transactions with state-owned enterprises including, but not limited to, tap water supply, wastewater treatment operating services, construction and other services. These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its pricing strategy and approval process for purchase and sales of products and services. Such pricing strategy approval processes are consistently applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

Other than the transactions and balances with related parties disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with the Company's immediate holding company, fellow subsidiaries and other related parties during the year:

	Related party	Year ended 31 December **2018** ***RMB'000***	 2017 *RMB'000*
Tap water supply income			
– Luzhou City Xinglu Investment Group Co., Ltd.	An immediate holding company	**20**	–
– Luzhou Laojiao Group Co., Ltd.	A shareholder	**–**	172
– Other companies	Fellow subsidiaries	**3,500**	1,779
Installation service income received	Fellow subsidiaries		
– Luzhou Xinglu Jutai Real Estate Co., Ltd.	Fellow subsidiary	**8,473**	–
– Other companies	Fellow subsidiaries	**810**	12,896
Water quality testing income	Fellow subsidiaries	**163**	106
Property management fees	A fellow subsidiary	**(3,055)**	(2,983)
Garbage collection service income	Fellow subsidiaries	**806**	–

The above transactions were conducted in accordance with the terms of relevant agreements.

In addition, during the years ended 31 December 2018 and 2017, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

45. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of directors, supervisors and key management personnel.

The remuneration of directors, supervisors and other members of key management during the year are as follows:

	2018 *RMB'000*	2017 *RMB'000*
Short-term benefits	**4,129**	3,772

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 *RMB'000*	2017 *RMB'000*
Non-current Assets		
Property, plant and equipment	**17,266**	17,898
Prepaid lease payments	**11,392**	11,597
Intangible assets	**1,207,217**	976,986
Prepayment for prepaid lease payments	**4,000**	4,000
Available-for-sale investments	**–**	53,630
Equity instruments at fair value through other comprehensive income	**57,273**	–
Investments in subsidiaries	**781,170**	562,949
Deferred tax assets	**6,942**	3,407
	2,085,260	1,630,467
Current Assets		
Inventories	**16,935**	15,085
Trade receivables	**31,794**	23,546
Prepaid lease payments	**260**	260
Amounts due from customers for contract work	**–**	8,995
Contract assets	**18,154**	–
Amounts due from subsidiaries	**28,839**	32,223
Prepayments and other receivables	**28,776**	8,152
Bank balances and cash	**285,540**	483,719
	410,298	571,980

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	2018 *RMB'000*	2017 *RMB'000*
Current Liabilities		
Trade payables	**35,638**	18,259
Tax liabilities	**8,848**	10,601
Borrowings	**283,603**	191,074
Advances from customers and other payables	**159,875**	285,945
Contract liabilities	**138,428**	–
Provisions	**471**	880
	626,863	506,759
Net Current (Liabilities) Assets	**(216,565)**	65,221
Total Assets Less Current Liabilities	**1,868,695**	1,695,688
Capital and Reserves		
Share capital	**859,710**	859,710
Share premium and reserves	**682,137**	633,038
Total Equity	**1,541,847**	1,492,748
Non-current Liabilities		
Borrowings	**254,202**	143,685
Deferred income-government grant	**18,500**	18,900
Provisions	**54,146**	40,355
	326,848	202,940
	1,868,695	1,695,688

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movement in the Company's reserves

	Capital reserve	FVTOCI reserve	Statutory surplus reserves	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	235,576	–	6,018	178,562	420,156
Profit and total comprehensive income for the year	–	–	–	43,124	43,124
Appropriation for the year	–	–	7,765	(7,765)	–
Issue of new ordinary shares	203,595	–	–	–	203,595
Listing expenses related to the issue of ordinary shares	(33,837)	–	–	–	(33,837)
At 31 December 2017	405,334	–	13,783	213,921	633,038
Adjustment *(note 3)*	–	3,346	–	–	3,346
At 1 January 2018 *(restated)*	405,334	3,346	13,783	213,921	636,384
Profit for the year	–	–	–	115,144	115,144
Other comprehensive expense for the year	–	(614)	–	–	(614)
Total comprehensive (expense) income for the year	–	(614)	–	115,144	114,530
Appropriation for the year	–	–	14,842	(14,842)	–
2017 final dividend declared and fully paid	–	–	–	(68,777)	(68,777)
At 31 December 2018	405,334	2,732	28,625	245,446	682,137

47. EVENTS AFTER THE REPORTING PERIOD

(a) On 28 January 2019, the Company entered into a finance lease agreement, pursuant to which (i) the lessor has agreed to purchase the long-term assets (certain balancing tanks, clean water pools, water pipelines and pipe networks located in Luzhou City) from the Company; (ii) the lessor has agreed to lease the assets back to the Company for a term of 60 months commencing from the lease date; (iii) the total principal lease amount is RMB200,000,000; and (iv) an estimated total interest of RMB14,063,000 with an adjustable floating interest rate of 90% of the benchmark interest rate to be charged for RMB term loans of between three years to five years as adopted by the People's Bank of China. On 29 January 2019, the Company has received principal lease amount of RMB150,000,000 of the finance arrangement.

(b) On 27 February 2019, the Company entered into equity transfer agreements with 瀘州市興新水環境治理有限公司(Luzhou Xingxin Water Environmental Governance Co. Ltd.) and 瀘州市天潤產業發展投資基金合夥企業(有限合夥) (Luzhou Tianrun Industrial Development Investment Fund Partnership LP), respectively, pursuant to which the Company agreed to acquire a total of 92.50% equity interest in 瀘州市繁星環保發展有限公司(Luzhou Fanxing Environmental Protection and Development Co. Ltd., "Fanxing Company") at an aggregate consideration of RMB117,000,000. Fanxing Company was established in the PRC with limited liability in 2016. It is primarily engaged in wastewater treatment and recycling, the management of municipal facilities, the investment, construction, operation and consultation of environmental protection projects, and the manufacturing and installment of environmental protection equipment. Upon the completion of the equity transfer, Fanxing Company will become a direct non-wholly owned subsidiary of the Company and its results will be consolidated in the consolidated financial statements of the Group. The Company has paid all of the consideration in February 2019. The Group is in the process of assessing the financial impact of the acquisition.